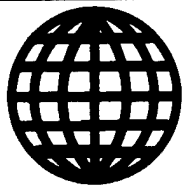


JPRS-CAR-90-075  
10 OCTOBER 1990



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA. 22161

19980123 133

**DTIC QUALITY INSPECTED 3**

**DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

# China

JPRS-CAR-90-075

## CONTENTS

10 OCTOBER 1990

### INTERNATIONAL

#### GENERAL

- International Economic Predictions for 1990's  
[Hong Kong LIAOWANG OVERSEAS EDITION No 23] ..... 1

#### EAST EUROPE

- Achievements, Failures of Ceausescu in Romania [SHIJIE ZHISHI No 13] ..... 3

### POLITICAL

- Problem of Widespread Nepotism Discussed [ZHONGGUO JINGJI TIZHE GAIGE No 7] ..... 7  
State Council Structural Reform Ends [ZHONGGUO JINGJI TIZHE GAIGE No 7] ..... 8

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

- CASS Analyzes Development, Reform in 1990's [JINGJI YANJIU No 7] ..... 9  
Economist Discusses Effects of Tight Policy [GAIGE No 4] ..... 26  
Jan-Aug Economic Indicators Show Increased Demand [XINHUA] ..... 28  
CASS Group Views Improving Economic Efficiency [JINGJI GUANLI No 7] ..... 29

#### PROVINCIAL

- Gansu's Role in Western Development Viewed [XINHUA] ..... 35  
Liaoning Completes Panjin Ethylene Project [Shenyang Radio] ..... 35  
Provinces Urged Not To Jeopardize Pudong's Chances [JINGJI RIBAO 6 Aug] ..... 35  
Economic Development Stressed in Western Region [QUNYAN No 8] ..... 36

#### FINANCE, BANKING

- Growth Seen in Modern Securities Market [CEI Database] ..... 43  
Jan-Jul Financial Status Reported [CEI Database] ..... 44  
Bank Loans Used To Strengthen Economy [CHINA DAILY 30 Aug] ..... 44  
Industrial Bank Fine-Tunes Loan Policies [XINHUA] ..... 45  
Shanghai Limits Foreign Exchange Price Range [Shanghai Radio] ..... 45  
Shanghai Plans More Bond Market Centers [XINHUA] ..... 46

#### MINERAL RESOURCES

- Shandong Increases Gold Mining Production [Jinan Radio] ..... 46

#### INDUSTRY

- Jan-Jun Coastal Industrial, Commercial Indexes [CEI Database] ..... 46  
Light Industrial Product Imports for August [CEI Database] ..... 46  
Import of Textiles in August Reported [CEI Database] ..... 47  
Gansu Industrial Production Picks Up in August [Lanzhou Radio] ..... 47  
Inner Mongolian Steel Works Increases Production [XINHUA] ..... 47  
Textiles Minister Tours Tangshan in Hebei [Shijiazhuang Radio] ..... 48  
Ship Construction Efficiency Highest in Years [CHINA DAILY 25 Sep] ..... 48

## CONSTRUCTION

Shipbuilders Win Overseas Construction Contracts [XINHUA] .....	49
---	----

## FOREIGN TRADE, INVESTMENT

Shanghai Seeks To Expand Role of Trade in Economy [JIEFANG RIBAO 29 Aug] .....	49
Foreign Trade Development, Reform Discussed [CAIMAO JINGJI No 6] .....	51

## ECONOMIC ZONES

Ningbo Activates Programmed Telephone Lines [XINHUA] .....	56
Shanghai Briefing on Pudong Development [Shanghai Radio] .....	56
Zhuhai Special Zone Opens Office [Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) 20 Sep] .....	58

## TRANSPORTATION

Transport Network in Jinggang Mountain Area [XINHUA] .....	59
Chengdu-Chongqing Expressway Construction Begins [XINHUA] .....	59
Shandong Achievements in Highway Construction [Jinan Radio] .....	60
Jining-Xinghe-Laoyemiao Road Construction Begins [NEIMENGGU RIBAO 22 Aug] .....	60
Fujian Province Plans Port Expansion, Construction [XINHUA] .....	60
New Rail Link Meets Financial Obstacles [Hong Kong HONGKONG STANDARD 22 Aug] .....	60

## AGRICULTURE

Effects of Grain-Cotton Price Ratio Mechanism [JINGJI RIBAO 17 Aug] .....	61
Cotton Shortages Hamper Textile Industry Growth [JINGJI RIBAO 23 Jul] .....	64
Edible Oil Procurement Prices Adjusted [HEILONGJIANG RIBAO 1 Sep] .....	65
Grain Exports Meet Annual Target [CHINA DAILY (BUSINESS WEEKLY) 1 Oct] .....	65
Imports of Cereals, Oils for August Reported [CEI Database] .....	66
Exports of Cereals, Oils for August Reported [CEI Database] .....	66
Provincial Apple Output, Procurement Prices [NONGMIN RIBAO 19 Sep] .....	67
National Tobacco Procurement [NONGMIN RIBAO 3 Sep] .....	67
Anhui Tobacco Procurement [ANHUI RIBAO 3 Sep] .....	67
Joint Venture To Promote Beijing Animal Husbandry [CHINA DAILY 27 Sep] .....	67
Severe Drought Hits Guangxi [XINHUA] .....	67
Hebei Canned Food Exports [HEBEI RIBAO 12 Sep] .....	68
Heilongjiang Reports Forestry Achievements [Harbin Radio] .....	68
Henan Autumn Crop Area [HENAN RIBAO 28 Aug] .....	68
Hunan Farm Product Procurement [HUNAN RIBAO 22 Aug] .....	68
Jiangxi Rice Storage [JIANGXI RIBAO 5 Sep] .....	68
Jiangxi Expands Cotton Area [NONGMIN RIBAO 12 Sep] .....	68
Low Prices Depress Liaoning Grain Production [NONGYE JINGJI No 3] .....	68
Shandong Reports on Animal Husbandry [Jinan Radio] .....	71
Shandong Fisheries Rank First in Nation [Jinan Radio] .....	71
Shandong Beer Output, Exports [Jinan Radio] .....	72
Sichuan Grain Area [SICHUAN RIBAO 12 Sep] .....	72
Yunnan Grain Procurement Prices [YUNNAN RIBAO 9 Sep] .....	72
Yunnan Hybrid Rice Seed Area [YUNNAN RIBAO 25 Aug] .....	72

## SOCIAL

Purge Reported Within Literary Circle [Hong Kong KAIFANG No 42] .....	73
Campaign Against Corruption Outlined [MINZHU YU FAZHI No 132] .....	76
Decrease in Postgraduate Students Explained [DAXUESHENG No 6] .....	77
Increase in Abduction of Women, Children Analyzed [SHEHUI No 7] .....	79

**MILITARY, PUBLIC SECURITY**

Widespread Military Corruption Spotlighted [Hong Kong KAIFANG No 45] .....	82
Amphibious Zhongdui Trains Special Forces Troops [JIANCHUAN ZHISHI Nos 5, 6] .....	84

**PRC MEDIA ON TAIWAN AFFAIRS**

Taiwan's Drive Toward Foreign Investment Explained [Hong Kong LIAOWANG OVERSEAS EDITION No 32] .....	90
---	----

**TAIWAN**

Li Huan Discusses KMT's Intraparty Power Struggle [Hong Kong CHAO LIU No 42] .....	92
--	----



## GENERAL

**International Economic Predictions for 1990's**  
90CM0287A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 23, 4 Jun 90  
pp 28-29

[Article by Shi Min (0670 2404): "Prospects for the Economic Pattern of the World in the 1990's"]

[Text] The economic pattern of the world is now at a turning point. Based on the economic and political changes in the world in the 1980's, we can predict that the economic pattern of the world in the 1990's will take on the following basic characteristics.

1. The pluralistic tendency of the world economy will develop further, and several large regional economic groups will gradually take shape.

After the European Community completes the unified great internal market at the end of 1992 according to its plan, it will expand the great market to include countries of the European Free Trade Association. It also may attract some East European countries to join and make it become the unified great market of Europe both in name and in reality. In North America, the United States and Canada began in early 1989 to enforce the U.S.-Canadian Free Trade Agreement. The United States is vigorously trying to sign a free trade agreement with Mexico so as to expand the U.S.-Canadian Free Trade Zone to the North American Free Trade Zone. In Asia and the western Pacific region, economic and trade relations between Japan and the "four little tigers" and ASEAN nations have developed rapidly. In recent years, the scale of investment and trade among different countries and areas in this region has increased sharply, economic and scientific and technological cooperation has become increasingly close, and the internal trade volume of this region has accounted for nearly a fourth of the total volume of world trade and may reach a third by the end of this century. In the 1990's it is very possible that the Asian-Pacific region may form a large-scale regional economic group. Since regional economic groups give their members various preferential treatments, they are bound to have a certain degree of exclusiveness when they are dealing with nonmember countries. But, with further development of economic internationalization, regional economic groups in the world will not become closed economic alliances.

2. The United States, Japan, and Europe will have decisive influence in the world economy.

It is estimated that in the 1990's the GNP of developed capitalist countries will still account for about 60 percent of the world's GNP, and that socialist and developing countries will account for about 40 percent.

In the 1970's and the 1980's, Japan rose as a world economic superpower. Japan's population is equivalent to only half of that of the United States. The gross value

of its domestic product was equivalent to only 20.2 percent of that of the United States in 1970, but in 1989 it rose to 60 percent and its per capita output value was already 20 percent higher than that of the United States. Japan's international financial power is great. At present, the world's 10 biggest banks are all Japanese banks. Japan has also become the world's greatest creditor nation. At the end of 1989, its net creditor's rights amounted to \$400 billion. For many years Japan has been the nation with the highest trade surplus in the world. In 1987 its trade surplus exceeded \$80 billion. In 1989, it declined to \$71 billion, slightly lower than that of the Federal Republic of Germany, and still ranked second in the world. In science and technology, Japan has also caught up with the United States in many fields and is seriously challenging the overall prominence enjoyed by the United States. While Japan is gaining rapidly on the United States economically, the economy and science and technology of the Federal Republic of Germany are also developing rapidly. For many years it has been the world's greatest export nation. After their unification, the two Germanys will be closer to Japan economically. Moreover, the establishment of the EC's great market is bound to give impetus to the development of European economy and enable Europe to become a new strong competitor of the United States. The economic power of the United States has declined in comparison. The United States became the world's greatest debtor nation in 1985. U.S. net debts exceeded \$600 billion at the end of 1989. The United States has also become the nation with the world's highest trade deficit. In spite of all these facts, the United States is still the world's greatest economic power. In the 1990's, the United States, Japan, and Europe will continue to play a decisive role in the world economy. Japan and the Federal Republic of Germany or unified Germany will continue to be ahead of the United States in terms of the speed of economic development. The economic power and status of the United States will decline further.

Willy de Clercq, EC's public relations official, brought up long ago the view of three locomotives—the United States, Japan, and Europe—leading the world economy. Changes in the international situation in recent years make many politicians and scholars of the world increasingly agree with this view. They think that the three locomotives—the United States, Japan, and Europe—leading the world economy comes from the uneven development of the world economy as well as an inevitable outcome of a certain development of pluralism. As a matter of fact, after entering the 1970's, intensified international coordination and frequent superpower summit meetings and finance ministers meetings prepared for such a major change in the "leadership system" of the world economy.

3. The economy of the Asian-Pacific region will continue to develop faster than other parts of the world and will become the most lively part of the world's economic development.

The Asian-Pacific region here refers to eastern Asia and the western Pacific area. This region includes Japan, which has the greatest development momentum of developed countries. It also includes the "four little tigers" of Asia, which developed rapidly a few years ago, whose per capita output value is close to that of developed countries, and whose import volume is equivalent to half of that of the United States. By the end of this century, their per capita output value will all reach the level of developed countries. Their industrial structure also will be close to the matured type of developed countries. In the exports of commodities, capital, and technology, they will become the competitors of developed Western countries. In addition, the average growth rate of four ASEAN nations (not including Singapore and Brunei) that have abundant resources and inexpensive labor surpassed the "four little tigers" in 1989. In the next few years, through the import of large amounts of foreign capital, the speeding up of industrial structural readjustment, and the improvement of infrastructure, they will continue to maintain an upward development trend. By the end of this century, it is very possible that Thailand and Malaysia of ASEAN nations will become the fifth and sixth newly industrialized countries of Asia. China is a great power of the Asian-Pacific region. Its development rate was far ahead in the world in the past 10 years. Although its economic growth rate declined slightly in 1989, after carrying out the improvement and consolidation campaign, deepening the reform, and further opening to the world, its economy will continue to grow steadily. In sum, in the 1990's the economic development of the entire Asian-Pacific region will continue to be faster than other regions and will become a major motive power behind the economic development of the world.

4. The strength and function of transnational companies continue to grow and the degree of economic interdependence of all countries becomes deeper and deeper.

Transnational companies have a decisive impact on the development of the world economy. Along with the interpenetration of investment of transnational financial groups and the development of international joint management, a so-called "borderless economy" is taking shape. Through investment, technology transfer, and monopoly of marketing channels, transnational companies are playing an important role in the changes in industrial sectors in all countries. In the new international division of labor formed through the readjustment and transfer of industrial structures, we can vaguely see the traces of internal division of labor between the parent companies of transnational companies and their subsidiaries in different countries.

It is estimated that, by the end of the 1990's, about 40-50 percent of spare parts and semifinished products of the manufacturing industries of the United States and other developed countries will be supplied by foreign countries, mainly by subsidiaries of transnational companies in countries where labor costs are relatively low. For instance, currently about a third of the more than 4

million spare parts of a large passenger plane and more than 40,000 spare parts of an automobile in the United States come from foreign countries. It is very possible that this ratio will rise to about a half by the end of this century. Although developed countries are also alarmed that the "hollow tendency" of their manufacturing industries will increase the vulnerability of their economy, the law of competition will continue to force the transnational companies of developed countries to carry out such industrial transfers and division of labor to guarantee maximum profits. The investment of transnational companies and transnational management have accelerated economic internationalization and the improvement of international labor productivity. This is conducive to the development of world economy and trade. It is also conducive to the upgrading of the industrial structure and the improvement of economic and technological levels in some developing countries. However, in the new international division of labor formed through the transfer of industrial structures, developing countries will still fall in an unfavorable position. Unequal exchanges will concentrate a large amount of profits in developed countries and the overwhelming majority of the "base camps" of the "borderless economy" practiced by transnational financial groups are still located in developed capitalist countries.

5. The economic and technological gaps between developed and developing countries will expand further and the internal division of developing countries will worsen.

Advanced information exchange and scientific and technological development in the 1990's have provided certain opportunities for developing countries, but the overwhelming majority of advanced technologies are monopolized by the transnational companies of developed countries. Developing countries are at a disadvantage in the development of new technology due to insufficient funds and limited technological levels. And developed countries will by no means transfer advanced technology for free. Because of this, the scientific and technological gaps between the North and the South will expand further, not narrow. This will undoubtedly also expand the economic gap between the North and the South.

The economic gap between the North and the South will further expand for the following reasons: 1) The heavy burden of debts (developing countries' current debts total \$1,300 billion) and the shortage of funds will continue to be the obstacles in the economic development of many developing countries. 2) The trade conditions of developing countries will continue to worsen. Except for OPEC member nations, whose export income probably will increase substantially due to the rise of oil price in the later part of the 1990's, most developing countries cannot easily increase their export income and will continue to have problems due to the continuing trend of falling prices of primary products. Since protectionism is rising, it will further increase the export difficulties of developing countries. 3) Some developing

countries may have new obstacles or mistakes in the readjustment of economic development strategy and economic structures.

Judged from the situation as a whole, the economic gap between developing and developed countries will continue to expand, but the situations of developing countries are different. They differ substantially. The internal division of developing countries will be intensified. Some developing countries in Asia, especially newly industrialized countries (areas), have developed their economy rapidly, continued to upgrade their industrial structures, and rapidly increased their per capita income. A few of them might join the ranks of developed countries by the end of this century. The economic development of many countries in southern Asia is slow in comparison. Some will continue to be among the most underdeveloped countries. The economic development of countries south of the Sahara Desert in Africa is very slow. Their population growth is too fast. In the 1990's, they will be doing well if they can manage to feed their people and maintain or slightly increase the existing per capita income. Latin American countries used to have higher economic levels. In the 1980's, due to the debt crisis and the erroneous development strategies of some countries, economic development slowed down. The 1989 per capita income was 10 percent lower than that of 1979, causing the 1980's to become the "lost 10 years." If they can reverse the trend of falling per capita income, achieve a certain degree of economic growth, and control runaway inflation in the 1990's, they will be making great progress.

## EAST EUROPE

### Achievements, Failures of Ceausescu in Romania

90CM0349A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 13, 1 Jul 90 pp 12-14

[Article by Zhang Wensheng (1728 2429 3932) and Yang Hua (2799 5478): "Ceausescu and Romania"]

[Text] Ceausescu was overthrown by force in the "December affair" last year after ruling Romania for a quarter of a century. The lives and properties of the Romanian people suffered irreparable losses in the "December affair" and Ceausescu and his wife were sentenced to death by a military court and executed together. Although the form taken by this storm and its intensity were somewhat fortuitous, it was a foregone conclusion that it would happen sooner or later.

### Coming From the People

Ceausescu was born into an impoverished peasant family on 26 January 1918, the third of 10 children. His family was so poor that he could not even afford to buy books while in grade school. To make a living, he left home at 11 and became an apprentice in a shoe repair shop in Bucharest, the capital. But those days coincided with the Great Depression of 1929-1934 in the capitalist

world. In Romania, which was also affected, many factories closed down and large numbers of workers lost their jobs. With the economic crisis exacerbating social conflicts, the workers' movement flourished. Meanwhile, fascist forces were also gaining ground rapidly. The young Ceausescu threw in his lot with the liberation of the proletariat and threw himself into the antifascist struggle. In 1933, when he was only 15, he participated in the congress of the anti-fascist fighters and was elected to the national antifascist committee. In the same year, he joined the Union of Communist Youth and became a grassroots cadre in the union's organization in Bucharest. In 1936 he joined the underground Romanian Communist Party [RCP] and was sent to a key industrial region in Pulahuowa Prefecture to serve as secretary of the union's prefectural RCP committee. In 1939, the fascist military regime of Antonescu came into power and Romania became an appendage of Hitler's Germany. By then Secretary Ceausescu of the central committee of the Union of Communist Youth had traveled all over the country, struggling against fascist rule and fighting selflessly for the fatherland's liberation.

Beginning in 1934, Ceausescu was arrested several times and tasted life behind bars to the full. Nevertheless, prison life enabled him to meet many stalwart communists and study Marxism-Leninism and search for the truth of national salvation alongside them. The prison was where he got his revolutionary training. In 1936, he met Gheorghiu-Dej in the prison for political prisoners, long known as the "Bastille of Romania," and impressed the leader of the RCP with his amazing memory, remarkable understanding, and outstanding oratorical skills. A few years later, he found himself in the Te-er-gu-ri-wu concentration camp along with Gheorghiu-Dej and was able to come into closer touch with the top leadership of the RCP. Encouraged by the victory of the Soviet Red Army in the Battle of Stalingrad, RCP leaders in the concentration camp began hammering out an action plan to usher in liberation. Ceausescu was heavily involved in the deliberations. As soon as he stepped out of the concentration camp in July 1944, he took part in planning the 13 August uprising. The uprising overthrew the Antonescu's fascist military regime and ended the control by Hitler's Germany, opening up Romania's road to socialism. It also gave the young Ceausescu an opportunity to shine on the political stage for the first time. In 1944 he became the first general secretary of the central committee of the union after the liberation. In 1945, he was elected to the RCP Central Committee. Subsequently he served as prefectural party secretary, deputy minister of agriculture in charge of the cooperative transformation of agriculture, deputy minister of the armed forces and concurrently director of the Political Department of the armed forces. In 1955 he was elected to the Politburo of the RCP Central Committee and secretary of its secretariat, positioning himself to succeed Gheorghiu-Dej. When the latter passed away in 1965, Ceausescu was elected first secretary of the RCP Central Committee and became the paramount leader of the party and the nation.

### Adhering to Independence Throughout

Historically, Romania has suffered from foreign rule for long periods of time. Independence for the country and liberation for the nation were the people's wishes as well as the longstanding struggle of the RCP. In the years after World War II, the main threat to Romanian independence and sovereignty was the chauvinistic and hegemonistic policies of the Soviet Union. Ever since Gheorghiu-Dej's day, Romania's Communist leadership had been conducting a relentless struggle to fight for and preserve independence and self-determination. Ceausescu supported and continued this fundamental line. This was one important reason why he was able to remain the top party and government leader for a long time.

In the early days of liberation, the Soviet Union set up Soviet-Romanian joint stock companies in many sectors of the Romanian economy by confiscating the assets of Hitler's Germany, in effect seizing control of Romania's economic lifeline. The drive for independence and self-determination by the RCP began with buying out Soviet shares in those companies. Under Brezhnev, however, the Soviet Union practiced "international division of labor and specialization" within CEMA and demanded that Romania specialize in agriculture, which would be its division of labor, in yet another attempt to control the Romanian economy. The RCP firmly rejected this ploy to turn CEMA into a supranational organization and limit the sovereignty of its member nations. In 1963, the Soviet Union and Romania had a bitter confrontation over this issue; Ceausescu headed the negotiations on the Romanian side. Romania emerged from this quarrel with its economic independence intact.

Militarily, Romania's Communists too managed to preserve the nation's independence through an arduous struggle. Romania joined the Warsaw Pact in 1955 and successfully persuaded the Soviet Union to withdraw its troops from Romanian soil, thereby laying the foundation for its quest for independence and self-determination. In 1968, five Warsaw Pact nations sent troops into Czechoslovakia at the instigation of Brezhnev. Not only did Ceausescu condemn it resolutely, but he also ordered a general mobilization at home to prepare for a Soviet invasion. Moreover, Romania refused to participate in the plan to integrate the forces of the Warsaw Pact and staunchly refused to allow Warsaw Pact forces to hold military exercises on Romanian territory. All this earned Romania a unique position in the Warsaw Pact similar to that of France within NATO.

Diplomatically, Romania's policy of independence and self-determination was even more pronounced. In 1967, heedless of Soviet objections, he established formal diplomatic relations with the Federal Republic of Germany. In the 1970's, Romania entered into extensive economic cooperation with Western nations. In 1975, it was granted most-favored-nation treatment by the United States and was the first East European nation to

recognize and sign a bilateral agreement with the European Economic Community, which granted it some preferential treatment. Ceausescu assiduously cultivated relations with the Third World and took part in the Group of 77 which is devoted to the preservation of the economic rights and interests of the Third World. Ceausescu also attended the meeting of the heads of government of nonaligned nations in Colombo as a "special guest." Since the days when Gheorghiu-Dej was in power, Romania had refused to participate in the anti-China chorus orchestrated by the Soviet leadership. In the Ceausescu era, Sino-Romanian ties further strengthened across the board on the basis of the five principles of peaceful coexistence.

By adhering strictly to independence and self-determination, Romania succeeded in defending its national sovereignty and raising its international status appreciably. This not only made it possible for Romania to make friends everywhere all over the world, but also proved highly useful to the nation's economic construction.

### Failure in the Economy

But it was precisely in the nation's economy that Ceausescu erred badly and failed, with grave consequences. The root of the problem was that he ignored the people's livelihood and national capabilities and went too far in pursuing high accumulation, high targets, fast growth, and large-scale industrial construction. Agricultural production was overlooked and proportionate relationships in the national economy became seriously lopsided. Moreover, he stuck rigidly to centralized planning and refused to introduce necessary reforms. As a result, the economy was devitalized, costs were high, quality was poor, and technology languished.

At the Ninth Congress of the RCP in 1965, Ceausescu put forward an ambitious economic development plan. It demanded that a complete industrial system be created in the immediate future, that Romania join the ranks of moderately developed nations by 1985, and that a fully developed socialist nation be in place by 1990 or 2000. To reach this goal, he demanded that the nation achieve fast economic growth by raising the ratio of accumulation. For years Romania spent about one-third of the national income on accumulation. Hence, the slow improvement in public consumption. Although the Romanian economy chalked up double-digit growth during much of the 1970's, that was achieved by a good deal of belt-tightening, something not sustainable in the long haul. As a response to the economic conditions in the world, Romania's economic growth rate plummeted to 2.5 percent in 1980 and has never bounced back since. Ceausescu, however, failed to fundamentally adjust his policy in time. Instead, he desperately tried to keep the economy expanding by restricting the supply of commodities and curbing consumption. Worse, he ignored the experts' advice and insisted on repaying all foreign debt before 1990. Toward that end, imports were restricted to the minimum and exports were increased to

the maximum. Consequently, the people's most basic needs in daily life, such as food, gas, home heating oil, electricity, and daily consumer goods, were not met. To pay off foreign debt, Romania exported agricultural byproducts in large quantities, creating perennial shortages at home. In recent years, meat and meat products had become rarities in state-owned stores in Bucharest. Only internal organs and bones were available. The masses said sarcastically, "Even the pigs of Romania are patriotic. Their bodies may leave the country, but their hearts remain." In Bucharest in winter, people struggled to keep the temperature indoors at zero degrees; the elderly and children found the cold unbearable. At night, few street lamps were turned on and the entire city was pitch dark. Television is indispensable to modern living, yet there were only an hour and a half of TV broadcasting every day, and only on Saturday evenings could you see a TV drama. No wonder some elderly people complained that Romania had not been in such bad shape even in the war years. But even though things were so tough for the Romanian people, Ceausescu continued to put up massive building projects such as monuments. The Danube-Black Sea canal, for instance, completed in 1984, is the largest investment project in Romania to date. In 1985, construction began on a cluster of colossal administrative buildings in Bucharest; even similar edifices in France and Italy pale in comparison.

Romania's economic system was a straight copy of the Soviet system of the 1950's. It did not meet the needs of domestic economic development, let alone the ferocious competition on the international market. In 1967 and 1978, Romania twice tried to "improve" it, only to end up making it the "most centralized in the world." Since 1980, Ceausescu did try handing out bonuses among enterprise workers and contracting small stores to their employees in order to mobilize worker initiative, but balked at tampering with the system of centralized planning, so his changes produced little effects. Not only that, but in some speeches he even criticized as a "relapse into capitalism" such reform ideas as the introduction of market regulation and the notion of allowing some people to prosper ahead of others. Because of the long failure to reform the centralized planning system and the rejection of market mechanisms, there was no competition between enterprises, production went on with no consideration for costs, and product quality was extremely poor. On the international market, the selling prices of Romania's industrial products were one-third to one-half those of similar products from economically developed nations, and they did not sell well even at these prices. While Romania had a hard time finding foreign buyers for its exports, it depended on other countries for 50 to 85 percent of its industrial raw materials and fuels. Consequently, it had no choice but to pay for imports with loans. Foreign debt skyrocketed from \$3.8 billion in 1977 to \$11 billion in 1981. Had this continued, the Romanian economy would have found itself at an dead end.

It is certainly undeniable that Romania had had remarkable achievements in socialist construction, particularly in industrial development. What was once a backward agricultural nation before the war had now put together a rather comprehensive industrial system, with industry accounting for almost 60 percent of national income. But the fundamental goal of socialist construction, including industrial construction, is to meet the rising material and cultural needs of the people and improve their living standards. Poverty is not socialism. Yet Ceausescu's high-accumulation and low-consumption policies had only given the Romanian people a living standard lower than that in almost all of Europe, even lower than that in many Third World nations.

#### **Arbitrary and Dictatorial Rule Self-Destructive**

There are many reasons for Ceausescu's tragic end. Apart from a number of domestic and foreign factors, the crux of the problem is that he became woefully isolated from his own people, from the rank-and-file party members and cadres. As the "December affair" shows, unknown to himself he had long been opposed by the masses and deserted by his followers.

In the early days of his rule, Ceausescu was careful to emphasize collective leadership and promote socialist democracy. At the Ninth Congress of the RCP in 1965, he proposed that a party member "can assume only one regular political responsibility" to prevent abuse of power and arbitrary conduct. He overturned some mistrials from the 1950's and rehabilitated a number of cadres. He also demanded strict compliance with the socialist legal system. In December 1967, however, brushing aside the "no concurrent position" rule, proposed by himself and approved by the party congress, he assumed a concurrent position as chairman of the State Council in the name of improving work efficiency, thereby centralizing government and party power in his hands. Since then he began excluding those who held different views and built up his own trusted followers. At the Ninth Congress of the RCP in 1969 [as published], the old guard of the party, represented by Chivu Stoica, was elbowed out of the Central Committee. After the Soviet invasion of Czechoslovakia, Ceausescu tightened his grip on the nation even as he fiercely defended Romanian sovereignty. In 1971, a number of cadres in charge of ideology and youth work, including Secretary Iliescu of the RCP Central Committee, were demoted for opposing some of his actions. In 1974, a presidential system was introduced in Romania. As president, Ceausescu was armed with wide-ranging powers to directly promulgate laws and appoint and dismiss government employees. For many years to come, Ceausescu held almost every top job in Romania, including general secretary of the RCP Central Committee, president of the Romanian Republic, chairman of the Defense Commission, commander in chief of the armed forces, chairman of the Supreme Council of Economic and Social Development, chairman of the Democratic and United Front, and chairman of the National Working

People Committee. Each year his birthday was celebrated in spectacular fashion and his deeds and virtues were eulogized. His portrait could be seen in the office of every agency, every factory. People chanted "Long live Ceausescu" at every meeting. At the 14th Congress of the RCP in 1989, Ceausescu was interrupted by a standing ovation a whopping 60 times when he presented his report.

With Ceausescu monopolizing all power, his relatives too made their way into the top echelon one after another and captured many pivotal departments. His wife became a member of the political executive committee of the RCP Central Committee in 1973 and, later, member of the permanent council of the Political Executive Council, which gave her enormous power over cadres and personnel. She was also the first deputy premier and chairman of the State Science and Technology Commission. Ceausescu's three younger brothers were deputy minister of defense and concurrently secretary of the supreme political committee of the armed forces, vice chairman of the State Planning Commission, and president of the Academy of Senior Police Officers in the Ministry of Internal Affairs, respectively. His son was first secretary of the central committee of the Union of Communist Youth for years, and later became first secretary of the Sibiu RCP County Committee (after Romania abolished the prefectural system in 1967, a county became the equivalent of the old prefecture), which was actually a move to groom the younger Ceausescu as a successor. Scores of Ceausescu's family members held an assortment of key party and government positions, in effect controlling the nation's entire political and economic life.

Back in the 1970's, there was already deep dissatisfaction with Ceausescu both inside and outside the party, with several instances of strikes, demonstrations, and open criticisms. To tighten control, Romania gave the

police new powers to investigate "evidence relating to attempts to commit a crime" in 1978. To silence any angry populace, large numbers of informers were planted in departments and enterprises by the public security agency. In the 1980's, as the Romanian economy deteriorated by the day, demonstrations directly targeting Ceausescu broke out in some localities and the slogan "Down with Ceausescu" was heard in several places. In March 1989, six veteran former government and party leading cadres jointly signed an open letter roundly condemning Ceausescu, which created a stir at home and abroad. We can say that the political situation in Romania had long been in an explosive state.

After Ceausescu fell from power, all sorts of political forces in Romania competed in a free-for-all to vie for the right to govern the nation through a general election. After six months of intense jockeying, the National Salvation Front led by Ion Iliescu won the election with a plurality in the two houses of the assembly. Ion Iliescu was elected president. The newly elected National Assembly was charged with drafting and adopting a new constitution and calling another general election within a year after the constitution goes into effect. Ceausescu's egregious errors, his arbitrary and dictatorial ways, and his family rule all grossly violated the basic principles of how a Marxist party and government should conduct themselves, and severely damaged the reputation of socialism in the minds of the Romanian people. These mistakes, however, do not represent the nature of socialism, but its very opposite. For the sake of national development, social justice, and the public welfare, the cadres and masses of Romania are reflecting on the past and exploring the future. They will certainly discard everything that can be discarded and keep and further everything that can be affirmed. This is precisely what the Romanian people hope for after the turmoil of the "December affair."

### Problem of Widespread Nepotism Discussed

90CM0406B Beijing ZHONGGUO JINGJI TIZHE  
GAIGE [CHINA ECONOMIC SYSTEM REFORM]  
in Chinese No 7, 23 Jul 90 pp 53-54

[Article by Ding Zurong (0002 4371 2837): "Control the Infiltration and Spread of Nepotism in Formally Established Organizations"]

[Text] "Father-and-son bureaus and husband-and-wife sections; sonny drives daddy's car, grandson caters granddad's meals, and spouses sit across from each other at the office." This popular saying may be exaggerating things a bit, but to some extent it depicts vividly how nepotism permeates enterprises and other formal organizations. Kinfolk, fellow townsmen, and old schoolmates as groups continue to move into formally established organizations, creating a complicated network of relationships with interests that often depart from the organizations' goals, making it more difficult to manage the organizations. Nepotism must be brought under control.

According to a survey conducted by Anhui's provincial personnel and organization authorization research department, of 4,051 people in 46 party and government organs directly under the province's jurisdiction, as much as 18 percent of the cadres have relatives working in the same office, and 15.5 percent of these are cadres in provincial-level departments. These figures include husbands and wives, parents and children, and even three generations of grandparents, parents, and grandchildren who have additional in-law relationships—with ties on "both sides of the family carrying through three generations"—working in the same unit.<sup>1</sup> We are not saying that these clans who work in the same unit or several units in the same community are anything like the four big families described in *Dream of the Red Chamber*, where the downfall of one shames all and the success of one brings glory to everybody. But there is no doubt that nepotism has a negative effect on China's society, economy, and everyday life today, and that, intentionally or unintentionally, it has led to behaviors that depart from the goals of and even jeopardize society's formal organizations. Nepotism is a matter of financial interests and emotions, and it is moving into and spreading across the formal organizations, forcing management at all levels to make every effort to deal with the clans. In particular, if a member of one of the clans has a problem, if the manager must also deal with pressure from the entire clan in order to do his job or to deal with this person, sometimes the clan will gang up with other clans to create even greater pressure on the manager. The problem is, generally, there is at least one, if not several, "central figure" in each of these clans who holds a relatively high position or has substantial power within the organization. This is one of the main reasons why the clans are able to move into the formal organizations. As membership in these clans swells, and as the "central figures" are promoted to higher positions, their sphere of

influence will grow, and sometimes they can force the organizations to accommodate the members' irresponsible behavior.

### Intensify Education of the Formally Established Organizations' Staffs About Objective and Professional Standards

Governments at all levels as well as other organizations should utilize communist ideologies and moral standards to educate and guide their staffs and to encourage them to work conscientiously for their organizations' goals. With regard to the existing clans, the members' role in society's formal organizations should be emphasized, and they should be encouraged to give play to the clans' positive role and integrate their own goals with the goals of the formal organizations. The organizations should formulate rules and regulations to educate and guide the members to conform to proper standards. We should as much as possible prevent the unofficial ties of nepotism from interfering in our social and official activities and make the organizations' goals our personal goals.

### Draft and Perfect Various Rules and Regulations To Control the Infiltration and Spread of Nepotism in Formal Organizations

1. Taking into consideration the new situation that has emerged as a result of social development, formal organizations should realistically draft and make every effort to perfect various rules and regulations that facilitate the realization of overall socialist goals. For example, the policy of letting children inherit their parents' jobs (some have improperly extended this rule to cover both sides of the family and three generations) has been implemented for a while and is found to accentuate the adverse effects of nepotism. It should be curtailed and eventually eliminated in order to help solve the problem.
2. We should set up an effective [job] market for qualified personnel to encourage proper circulation. The lack of employment channels forces parents to go to their units to find work for their children. Efforts to solve the problems of separation of couples and abandonment of old people by their children are hampered by the way talented people must move around to find work. If organizations hire people who fit the jobs, encourage competition, and promote the proper flow of qualified personnel, clans will be less prone to move into those organizations and existing clans will not generate any adverse effect.
3. Clans that hamper or jeopardize the realization of the organizations' goals should be abolished or restructured. When a manager discovers that the activities of the members of a clan are jeopardizing the organization, he must make a prompt decision, strengthen the staff's

ideological and political education, and transfer some clan members to other jobs. Members who obstruct the goals of the organization despite education and job transfer should be dismissed.<sup>4</sup> We should promote the cadre exchange system and adhere to postings which avoid [nepotism]. In recent years, some regions have implemented a cadre exchange system and have dealt with the problem of nepotism in official organizations fairly successfully. Shaanxi Province has stipulated that three generations of kinsmen from both sides of the family working in the same leading group must be separately transferred, and it has limited the terms of county-level cadres in each location. Today, 90 percent of the cadres and deputy cadres are working outside of their hometowns.

Other than these measures, we should not overly restrict the activities of ordinary clans that do not interfere with the formal organizations' goals. For example, if the husband and wife had been working in the same unit before they were married, they should not be separated just because of their marital relationship. Some clans have been established for historical reasons and should not be restricted so long as they do not infringe upon the interests of the organization, obstruct its goals, or violate its rules and regulations.

#### Footnote

1. Zhu Weiqing [4281 5517 7230] et al.: "A Brief Analysis of the Kinship Among Government Office Workers," RENMIN RIBAO, 28 October 1989.

#### State Council Structural Reform Ends

90CM0406A Beijing ZHONGGUO JINGJI TIZHE  
GAIGE [CHINA ECONOMIC SYSTEM REFORM]  
in Chinese No 7, 23 Jul 90 p 51

[Unattributed article: "Current Round of State Council Structural Reform Ends"]

[Text] The structural reform of the State Council which has lasted more than two years has basically come to an end. Judging by the way the new organs function, and after inspection and examination, this round of reform has successfully modified the overall layout of the State Council's organs; it has stressed functional changes, enhanced the State Council's overall regulation and control capability, implemented the "three fixes" (fixed departmental functions, fixed installation of organs, and fixed personnel assignment), and tightened the formation and management of organs. The reform has headed in the right direction, the steps have been safe and steady, and the results are remarkable.

For the next step, we should proceed with the already-decided local structural reform experiments and broaden the scope of the experiments. We should continue to study and formulate programs for implementing local structural reform. Overall, we not only have not solved the problem of having created too many organs, but we are allowing them to continue to expand. This is reflected especially in the excess number of organs despite the quota, constant upgrading of organs, over-staffed organs, and the growing number of leading cadres. For this reason, specific measures must be taken to tighten control and keep the bloating from gaining momentum and spreading, and we need to take active steps to "deflate" the overblown organs.



## NATIONAL AFFAIRS, POLICY

### CASS Analyzes Development, Reform in 1990's

HK2009072190 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 90 pp 3-19

[Article by the Situation Analysis Group of the Economics Section of the Chinese Academy of Social Sciences (CASS): "Promote Stability Through Reform, Achieve Development Through This Stability—Basic Concepts of Development and Reform Based on 'Seeking Progress Through Stability' in the 1990's"]

[Text] Project leader: Liu Guoguang [0491 0948 0342]

Directors of study: Zhang Zhuoyuan [1728 0587 0337] and Zhou Shulian [0719 0647 5571]

Principal writers: Dai Yuanchen [2971 0954 2525]; Lu Zheng [0712 2398]; Mao Tianqi [0379 1131 0796]; Li Xiaoxi [2621 2556 6007]; and Cai Fang [5591 2499].

Units that participated in discussions and provided materials: Institute of Economics; Institute of Industrial Economics; Institute of Rural Development; Institute of Finance, Trade and Commodity Economics; Institute of Quantitative Economics and Technical Economics; Institute of Population; and Institute of Sociology.

#### I. Judgment on the Economic Situation as China Enters the 1990's

The current economic situation is both complex and intricate and there are different judgments on the situation. One view is that economic improvement and rectification have attained what they set out to achieve [DAO WEI 0451 0143]. This view maintains that since the major contradiction at present is insufficient total demand, it is necessary to increase demand in order to solve problems like sluggish market, industrial recession and unemployment. The other view is that economic improvement and rectification have not yet attained what they set out to achieve, that the six objectives have not yet been realized, and that total demand, particularly latent demand, is still great. This view holds that since the problems have not yet been resolved, curbing demand to maintain economic stability will remain the primary task during the Eighth Five-Year Plan period.

It is true that the sluggish sales of certain commodities, work stoppages and production cuts were reported last winter and spring. This is in fact an unavoidable phenomenon in the course of readjustments aimed at cooling off the heated economy, and is the result of certain practices of "rigid uniformity" in the control of money supply. Saying that sales are sluggish is too sweeping a statement to make. The fact is, chiefly affected by the sluggish market are products of home electrical appliances and other processing goods, which have seen too fast an expansion recently, as well as high-priced products of inferior quality. Production of some of these products should have been stopped or cut in any case. For some, sluggish sales are but a short-term

and temporary phenomenon. From the perspective of intermediate and long-term development, the possibility of excessive demand pushed by the expansion impulse still exists. In the meantime, it is still necessary to allocate jobs to people who have recently reached the working age, improve the people's livelihood, increase the comprehensive national strength, and prepare for the arrival of the debt repayment peak. All these factors will boost the growth of total demand. We must not lower our vigilance against economic overheating and shortages just because some products are temporarily hit by sluggish sales.

Besides macroeconomic imbalance, we are also faced with a host of other problems, such as the slow pace of the readjustment of the industrial structure and the continuous decline in economic performance. Of course we should fully recognize the achievements made in the 1980s. We now have a more abundant supply of commodities and the people's livelihood is better than ever before. We owe all this to the reform and open policy implemented since the Third Plenary Session of the 11th CPC Central Committee. The problems confronting us are problems in the course of advance. Examined on a deeper level, the root of these problems lies in our system. There will still be great development potential provided that we can straighten out the relationships between various sectors through reform, promote steady economic development along the track of the benign cycle, and gradually improve our economic performance.

From the perspective of the international situation, the general trend is that the danger of world war is diminishing, the threat of peaceful evolution is mounting, economic competition is escalating, and technological progress is picking up speed. In this competition, China, while under the pressure of debt repayment and sanction, also finds the circumstances to its favor as foreign funds search for outlets and foreign products look for markets. Provided that we do a good job of coping with the situation, are flexible in our measures while upholding our principle, and make an effort to minimize the unfavorable factors and magnify the favorable factors, it will be possible for us to make new breakthroughs and narrow the gap between us and the economically developed countries in international competition.

In short, we must appraise the economic situation in the 1990's as a comprehensive system. We must not judge the situation as it stands and make the mistake of being one-sided. After more than one year of economic improvement and rectification, factors of instability have mitigated somewhat. However, they have not been completely eliminated. While problems still abound in our economic life, there are favorable conditions and hopes for getting out of our predicament. Provided that we can handle things properly, we will be able to tone down fluctuations, bring about sustained, stable and coordinated economic development, and make new achievements.

## II. Increase the Weight of Reform and Properly Coordinate the Relations Between Stability, Reform, and Development

We are now faced with a series of "dilemmas": While having to control demand and bring prices down, we are afraid that this will impose market inhibitions and affect the speed of development. While having to relax control over money supply so as to stimulate economic growth, we are afraid that excessive demand will touch off another round of price rise. We must stabilize prices, but we are afraid this will intensify price distortions. We have to put prices in order, but we are afraid this will exacerbate the price spiraling. The small percentage of state revenue in the national income is the cause of financial difficulties, particularly at the central level, but we are afraid that changes aimed at remedying the situation will dampen the enthusiasm of the local authorities and enterprises. We should note that interrelated economic targets are reciprocal. The stimulation of economic growth by boosting demand will lead to inflation, while efforts to stabilize prices through cutbacks in demand can only be realized at the cost of reducing the speed of growth. This is a kind of reciprocal relationship. We must not overlook this reciprocal relationship when we choose our economic targets, but neither must we be reluctant to pay certain necessary costs. We must properly coordinate various economic targets. Otherwise there will be economic fluctuations and policy vacillations, and we will not be able to extricate ourselves from the dilemmas.

At present, the maintenance of national and social stability is a task of overriding importance. Steady economic development is the foundation of political and social stability. We must not only maintain stability in the near time; we must also maintain stability in the longterm. There are contradictions and reciprocal relations between near-term and long-term stability. The two must therefore be coordinated and dovetailed. The "dilemmas" in our current economic life usually find expression in the fact that certain measures aimed at near-term stability (such as the freezing of prices) may be unfavorable to long-term stability, while measures conducive to long-term stability (such as suspension of production, closure, merger and transfer to other lines of production) may lead to near-term instability. During the Eighth Five-Year Plan period, contradictions between tightening and relaxation, between efforts to stabilize prices and put prices in order, between the curbing of inflation and the reversal of the low rate of growth, between accumulation and consumption, and so on, all have something to do with the contradiction between near-term stability and long-term stability. The correct handling of relations between near-term stability and long-term stability means the proper coordination of relations between economic improvement and rectification, reform and development. The aim of economic improvement and rectification is to stabilize the economy so as to create a relatively relaxed economic atmosphere for reform and development. Economic

improvement and rectification would have been impossible without reform, and reform provides the necessary institutional conditions for the sustained, steady and coordinated development of the economy. Only by promoting stability through reform and achieving development through this stability can we bring about long-term and reliable stability. Hence, we must not consider economic improvement and rectification, reform and development as three separate tasks. Rather, there must be coordination between the three. Seeking progress through stability and gradually promoting the benign cycle of economic operation should be the overall guiding ideology during the Eighth Five-Year Plan period.

There are three tentative suggestions for the handling of relations between economic improvement and rectification on the one hand and development and reform on the other. The first suggestion is that we should wind up the economic improvement and rectification as quickly as possible and switch to development and reform. The second suggestion is that we should continue with the economic improvement and rectification, and should wait until after the economy has seen a fundamental turn for the better before switching to reform to promote development. The third suggestion is that at the stage of economic improvement and rectification, we should give overall consideration to improvement and rectification, reform and development, organically combine the three and coordinate their advance. Of special significance about this third suggestion is that it calls for an increased share of reform. The first two suggestions have nothing to recommend them as they set economic improvement and rectification against reform and development, with no link whatsoever between the two. We should choose the third suggestion. Our economic predicament is the culmination of different factors over a long time. Our economic plight can only be alleviated step by step. We must not hope to achieve quick success. During the Eighth Five-Year Plan period, our objective is to gradually move into a benign cycle. We should not attempt to bring about instant improvement, still less simply sit there and wait for the economic situation to take a fundamental turn for the better. It is entirely essential that we should give prominence to reform in our efforts to dovetail and coordinate economic improvement and rectification, reform and development during the Eighth Five-Year Plan period, as this will lay the institutional foundation for the economy to develop steadily in a benign cycle.

## III. The Objectives of Economic Improvement and Rectification, Development, and Reform During the Eighth Five-Year Plan Period and the Dovetailing of These Objectives

In the spirit of paying equal attention to economic improvement and rectification, development and reform, we should, when fixing the objectives of one task, take the needs of the other two tasks into consideration and avoid attending to one thing and losing sight of another. Concrete suggestions are as follows:

A. According to the Fifth Plenary Session of the 13th CPC Central Committee, economic improvement and rectification would take three years, possibly a longer time. As we see it now, it might be difficult to achieve all the objectives of economic improvement and rectification put forward by the Fifth Plenary Session within three years, and that the first two years or more of the Eighth Five-Year Plan period will still have to be devoted to tasks relating to economic improvement and rectification, such as reducing the rate of inflation, putting an end to supraeconomic money issue and gradually eliminating budget deficits. The readjustment of the industrial structure, the improvement of economic performance and the perfection of the macroeconomic regulation and control system will take a much longer time to accomplish.

When economic improvement and rectification first began in the fourth quarter of 1988, the economic situation was grave. Had we only resorted to economic means then, we would have experienced difficulty trying to stabilize the situation within the shortest possible time because economic measures would take time to produce effects. It was thus necessary and correct to rely more heavily on administrative means at that time. Certain administrative means, such as the control of investment in capital construction and the planned allocation and distribution of goods and materials of vital importance to the national economy and the people's livelihood, are meant for long-term implementation. Others, such as market closure, special control, real or disguised freezing of prices, are provisional, extraordinary measures. These should only be implemented over the short term, lest they produce the side-effect of obstructing the normal operation of the economy. When the momentum of inflation has been initially brought under control, we should step by step abandon provisional, extraordinary measures and rely more heavily on economic means of regulation. In addition to giving impetus to reform and development, this will also help dispel the misunderstanding at home and abroad that economic improvement and rectification will lead to stagnation, even recession.

B. Economic development during the Eighth Five-Year Plan period should have economic restructuring as its central task. Structural improvement and the achievement of better economic performance are two most important issues in China's economic development in the 1990's. In achieving the strategic objective of quadrupling the gross value of agricultural and industrial production by the end of this century, the important thing is not so much speed and quantity as quality and structure. Only when the structure has been improved will economic development have stamina. In the first half of the Eighth Five-Year Plan period, the primary task is to readjust the product mix and cater to changes in the market structure. In the latter half of this period, we should concentrate on the readjustment of the industrial structure with a view to rationalizing and upgrading this structure. Throughout the Eighth Five-Year Plan

period, a medium growth rate of five to six percent should be maintained. Some comrades interpreted the Central Committee's recent decision to appropriately relax control over money supply as a signal that the readjustment stage was over. They thought that we should prepare ourselves for a high tide of new projects and growth during the Eighth Five-Year Plan period. We think that this is a dangerous view as it might yet again lead to the blind pursuit of quantity and speed and hinder structural readjustment.

C. While maintaining a relatively relaxed economic environment, efforts should also be made to accelerate, step by step, reform in connection with macroeconomic management, the market and enterprises, and enlarge the share of the new planned commodity economy.

The socialist economy is a planned commodity economy based on public ownership, and the aim of economic structural reform is to find an appropriate means of combining planning and the market. As far as the traditional structure which rejects the market mechanism is concerned, reform should be market-oriented. However, market-oriented reform does not mean renouncing planned guidance and macroeconomic control. Previous reforms, especially reforms since the second half of 1984, have attained noteworthy progress in bringing the market mechanism into play. However, our failure to earnestly address the question of the combination of planning and the market has led to economic chaos and disorder, particularly in the realm of circulation. We must continue to promote market-oriented reform and strive to initially or basically put prices in order and eliminate regional partitions of the market in the latter half of the Eighth Five-Year Plan period. In the meantime, we should strengthen and improve planned regulation, control and guidance and see to it that the reform proceeds in the direction of the organic combination of planning and the market.

D. Divide work into different phases, each with its special area of emphasis. In view of the fact that we will have a heavy task maintaining macroeconomic balance and carrying out structural readjustment in the first two years of the Eighth Five-Year Plan period, we should place economic improvement and readjustment in a preeminent position and control GNP growth to within five percent. At the same time, price reform which combines readjustment with relaxation should be introduced for certain commodities, complemented by corresponding reforms in macroeconomic management. In the next three years, continuous efforts should be made to attain certain targets of economic improvement and readjustment, and the rate of GNP growth may be increased to just over five percent. The task of bringing about an optimum structure should be given greater importance and, with this in mind, the weight of reform should be further increased. This means that reform will be the central task of economic work as a whole during the middle and last parts of the Eighth Five-Year Plan period so as to prepare conditions for the further development of the economy in the latter half of the 1990's.

#### IV. Economic Growth Should Not Exceed Medium Speed

At the moment, appropriate relaxation is an essential step in view of the extremely low rate of industrial growth and the sluggish sales of certain commodities. An extremely low rate of growth and negative growth will lead to a whole range of new problems, which cannot be tolerated by our population and employment burdens, revenue and commodity supply. We must, therefore, strive to maintain a given rate of growth. However, we must soberly realize that the institutional and ideological roots of economic overheating and the pursuit of a high growth rate have not yet been truly eliminated, that every sector is just sitting tight waiting for a new round of high-speed growth. In order to prevent the reemergence of major and violent fluctuations in economic development and maintain sustained, stable and coordinated growth, it is still necessary to guard against the pursuit of unrealistically high speed in our guiding ideology and plans of economic development in the 1990's.

In the 1990's we must attain the second objective of our three-step development strategy, namely, to have the 1980 GNP quadrupled by the year 2000. In 1980, our GNP was registered at 447 billion yuan. Quadrupling this means that the GNP should be 1.788 billion yuan by 2000. Calculated at 1980 price levels, our GNP was 1.002 billion yuan in 1989, an increase of 124 percent over 1980, or an average annual growth rate of 9.38 percent. Thus the GNP was doubled ahead of schedule. At the rate of a five percent increase, the GNP will reach 1.052 billion yuan in 1990. With 1990 as the starting point, we can quadruple the 1980 figure if we can manage an average annual growth rate of 5.5 percent.

In the past, national income and the GNP basically grew in step with each other. If the average annual growth rate is to be fixed at five percent during the Eighth Five-Year Plan period and at six percent during the Ninth Five-Year Plan period, calculated at the 1989 price level, the GNP for the years 1990, 1995 and 2000 should be 1.365 billion yuan, 1.742 billion yuan and 2.330 billion yuan respectively. Per capita national income should reach 1,820 yuan by 2000, an increase of 50 percent over the 1990 level, or an average annual growth rate of 4.1 percent.

As for the targeted rate of growth in the total output value of industry and agriculture, in China, the rate of GNP growth is on the average about two percentage points below the rate of growth in the total value of industrial and agricultural production for the same period. Given that the building industry, communications and transport, posts and telecommunications, commerce and other tertiary industries will account for a larger share of the national economy, coupled with technological advancement, the improvement of economic performance and other factors, the gap between the rates of growth in the GNP and the total value of industrial and agricultural production will be gradually

narrowed over the next 10 years. But still the gap will not be less than 1.5 percentage points. Based on this reckoning, in order to ensure a 5.5 percent average annual growth rate for the GNP, the total value of industrial and agricultural production ought to achieve an average growth rate of seven percent. Under normal conditions, our agricultural output value should be able to achieve a 3.5-4 percent average annual growth rate. According to past experience and data, when the ratio between industrial and agricultural growth rates was kept at the level of 2-2.5:1, there was greater harmony between the two sectors. Hence, during the Eighth Five-Year Plan and Ninth Five-Year Plan periods, the average annual industrial growth rate should be maintained at the level of seven to nine percent.

By maintaining the above-mentioned medium speed of growth, we can avoid the over-issuance of money due to the pursuit of high speed, keep the rate of price rise due to the over-issuance of money to within three percent, and still have room for putting prices in order.

The target rate of growth set in our Sixth Five-Year Plan and Seventh Five-Year Plan was not high, but was greatly exceeded in actual implementation. We must learn our lesson in this regard during the Eighth Five-Year Plan period, take effective measures in our short-term plans and regular macroeconomic management, strictly control fixed capital investment, particularly bank credit, fix the rates of growth in investment, consumption and money supply and hold fast to these three security lines so as to prevent economic growth from exceeding the medium speed, guard against economic overheating, ensure a relatively relaxed economic environment and create favorable conditions for structural readjustment and institutional reform.

#### V. Readjustment of Industrial Structure Is the Central Task of Economic Development During the Eighth Five-Year Plan, Even the Ninth Five-Year Plan Periods

The imbalance of the industrial structure is a salient problem confronting our economic development. Development of basic industries and the infrastructure, such as agriculture, communications, transportation, telecommunications, energy and raw and semifinished materials industries, is held up, and there is a huge gap between supply and demand. During the 1986-1988 period, the average rate of growth in the total output value of agriculture and industry were 4.36 percent and 16.65 percent respectively. The ratio between the two was 1:3.8, which was notably below the normal level of 1:2-2.5. The average rates of growth in freight volume and the GNP were 3.5 percent and 10 percent, the ratio between the two being 0.35:1, which was below the reasonable level of 0.5:1. The elasticity coefficient of energy production was 0.4, which was below the 0.61 level during the Sixth Five-Year Plan period. The aggregate import of rolled steel during these three years was 40 million tons, equivalent to 30 percent of the domestic output of rolled steel over the same period. These indicate that the backwardness of our basic industries

has posed a serious obstacle to the sustained, stable and coordinated development of the national economy. Hence, we must take the readjustment of the industrial structure as the central task of economic development during the Eighth Five-Year Plan, and even the Ninth Five-Year Plan period.

In the readjustment of the industrial structure, we should pay attention to the proper handling of the relationships between industry and agriculture, between heavy industry and light industry, between raw and semifinished materials industry and processing industry, between communications, transportation and telecommunications on the one hand and the development of the national economy on the other.

On the relationship between industry and agriculture, since we have already basically laid the foundation for industrialization and initially developed a large and comprehensive industrial system, in our future industrial development we should mainly rely on industry's own accumulation, take further steps to end the previous policy of subsidizing industry at the expense of agriculture, and ensure the gradual increase in self-actualized investment in agricultural development.

The development of heavy industry should enjoy an appropriate lead. The reasons are: 1) The development of energy, raw and semifinished materials industry, communications and transportation has been held up and needs to be strengthened. 2) Since the overall technological level of the national economy is rather low, large-scale technological renovation needs to be carried out in the 1990's. 3) Since the trend of industrialization in the rural areas is irreversible, it is necessary to provide technical equipment for the labor force spared from agriculture. 4) To meet the needs of agricultural development, industry has to supply an increasing amount of capital goods to agriculture. 5) Urban and rural housing construction will see a steady growth, which means that the demand for building materials will also increase. 6) Due to changes in the product mix of consumer goods industries, there is a growing demand for industrial raw and semifinished materials supplied by the metallurgical, chemical and other industries.

However, the priority given to the development of heavy industry should not be at the expense of agriculture and light industry. We gained an important experience in our economic development in the 1980's because we attached great importance to the development of agriculture and the consumer goods industries, domestic market supply never saw such abundance and the expansion of exports was given a reliable guarantee. We must maintain a given rate of light industrial growth in order to increase the supply of essential products, ameliorate the pressure of inflation and ensure market stability. In export trade, our light and textile industries are in a relatively advantageous position. Before the export of mechanical and electrical products have risen to a dominant position, we still have to expand the export of light and textile products so to obtain foreign exchange and

substitute the export of primary products like energy, which are in short supply at home. During the Eighth Five-Year Plan period, the development of light industries should have its focus on technological transformation, the reduction of raw material consumption, the increase of varieties and specifications and the improvement of product quality.

Our present practice of taking the approximate balance between the rates of growth in the output values of light and heavy industries as the criterion for judging whether or not the relationship between light and heavy industries is harmonious lacks a scientific basis. In the light of the contrastive relationship between China's light and heavy industries in the 1980's and the trend of our economic development in 1990's, and taking into consideration the effects of import and export trade, it is probably quite reasonable to allow the rate of growth in heavy industrial output value a one to two percentage point lead in the industrial output value component during the Eighth Five-Year Plan period.

Communications, transportation and telecommunications are basic industries which were most neglected in the past and which are hit by the most severe shortages at the present stage. Next to agriculture, communications, transportation and telecommunications should be given precedence in our task of making up deficiencies in our basic industries. While giving priority to railroads, we should also make positive efforts to develop other modes of transportation, renovate and update the technical equipment of communications and transportation, and improve the overall transport capability. In developing communications, transportation and telecommunications, we will have difficulty meeting the needs of economic development in the 1990's whether in terms of funds or in terms of the construction cycle if we mainly rely on the central authorities to increase investment. Efforts must be made to arouse the enthusiasm of the localities to develop these undertakings.

We have a serious shortage of energy and raw and semifinished materials. This is partly due to the fact that energy development has been held up while the processing industries have been developing too fast, and partly due to the fact that technological progress for the national economy as a whole has been sluggish and the resource utilization rate has been low. Hence, in order to ameliorate the imbalance between energy and raw and semifinished materials industries on the one hand and the processing industries on the other, we should adopt the principles of giving appropriate preferential treatment to selected industries and combining replenishment with improvement. We should give appropriate preferential treatment to selected industries in order to make up the deficiencies, and should carry out replenishment in order to achieve the objective of upgrading. What we mean by making up deficiencies is to strengthen communications, transportation, telecommunications, energy, raw and semi-finished materials and other basic industries so as to gradually ease and eliminate the "bottlenecks" in economic development. What

we mean by upgrading is to replenish, reform and improve the processing industries so as to promote the technological upgrading of the processing industries, the upgrading of performance to scale, the upgrading of coordination among specialized departments, and the upgrading of the product mix and the technical performance of products. Unless steps are taken to make up the deficiencies and strengthen the basic industries, we will have difficulty ensuring the sustained, steady and coordinated development of the economy and pass the threshold to a higher stage of industrialization. On the other hand, if we simply concentrate on making up the deficiencies, do nothing about upgrading, adopt a simple defensive strategy in the development of our basic industries, and continue with the extensive development of the processing industries—a practice characterized by high consumption, low level and poor performance—the anticipated objectives of the policy of strengthening the basic industries on a selective basis will also fall through. Hence, we should speed up technological transformation and product updating on a selective basis in the machinery and electrical appliances industry, transform and equip various economic sectors with advanced machinery and electrical products, and gradually shift the national economy onto an advanced technological foundation.

During the Eighth Five-Year Plan and the Ninth Five-Year Plan periods, we should strive to keep the average annual rate of growth in primary energy production at four percent and the elasticity coefficient of energy at 0.65-0.72. The average annual rate of growth in power generation should be kept at seven to eight percent, the elasticity coefficient of electricity should be kept at around 1.2-1.3. Steel output should be increased at an average annual rate of 3.4 to four percent, and efforts should be made to increase output to 95 million tons by the year 2000 to ensure GNP growth at an average annual rate of 5.5 to six percent. Great efforts should be made to develop new types of chemical materials and expand their usage to replace some of the traditional materials.

We must pay attention to the development of tertiary industries, continue to ameliorate various "difficulties" in the people's livelihood, and create new job opportunities. In particular, we must positively create conditions for the development of new tertiary industries such as intelligence and information consultancy and technical services. During the Eighth Five-Year Plan and the Ninth Five-Year Plan periods, total growth for the tertiary industries should be controlled at a level one or two percentage points above the growth of the national economy. In this way, the primary, secondary and tertiary industries will develop in a more or less coordinated way.

The readjustment of the industrial structure is a complicated process. It takes time and bears a price tag. We cannot hope to achieve quick success. Since the readjustment of industrial policies involves changes in the relations of distribution, we must not only have clearly

defined and scientific industrial policies, but need the back-up of fiscal, monetary, taxation, investment and other policies, as well as relevant laws and regulations. On the dynamic level, the readjustment of the industrial structure is an on-going process. In other words, it is a long-term task and the most we can accomplish during the Eighth Five-Year Plan period is to bring about a more or less harmonious industrial structure. We must not slacken our work of readjustment as soon as we see a slight relaxation in the tension between supply and demand in the basic industries.

#### **VI. Maintain Steady Agricultural Growth and Improve the Internal Structure of Agriculture**

A steady increase in the total supply of agricultural products is of great importance to economic stability, assured economic development during the Eighth Five-Year Plan period and even in the next decade, as well as the realization of reform objectives.

China chiefly owes its agricultural development over the past 10 years to the rural economic structural reform, which has aroused the enthusiasm of the Chinese peasants. However, investment in agriculture in terms of materials and technology is obviously inadequate. In order to strengthen the material and technological foundation of agriculture, and enhance the overall production capacity of agriculture, we should increase investment in agriculture. In the light of Chinese and foreign experience and actual requirements, the percentage of state investment in agriculture should be restored to the 10 percent level from the average of below three percent over the past decade.

An increase in the total supply of grain is an important guarantee for social stability and the achievement of a relatively comfortable standard of living. During the Eighth Five-Year Plan period, the principal way of increasing grain output is to raise the per unit yield. It is estimated that if existing techniques of raising grain output are popularized on three to five percent of the annual sown acreage as has been done for some time, we will be able to increase grain output by 11.2 billion jin each year on the average. By the year 2000 total grain output will exceed 940 billion jin, or an average annual increase of 1.39 percent. Such a rate of growth can more or less guarantee that our per capita grain consumption will not decline, but the target of 800 jin per capita originally envisaged is unlikely to be attained before the end of this century. The original target would require an annual growth rate of 2.1 percent, 0.7 percentage points higher than the growth rate worked out above. Actually, the target of 800 jin per capita is not altogether impossible to achieve, but putting undue emphasis on grain is not conducive to the straightening out of proportions between different branches of agriculture, or to the correct handling of the problem whereby grain has to compete with economic crops like cotton and oil for land. China has a small per capita acreage of arable land but abundant labor power. Hence, grain production does not have any advantage over the cultivation of economic

crops, which requires little land but a considerable amount of labor. This explains why the price of grain has always been in an unfavorable position in comparison with other commodities, a situation which has affected the peasants' enthusiasm in growing grain crops. However, conditions for raising the price of grain by a big margin are not yet present. Experience shows that when the state steadily increased its grain import and when grain supply was fairly abundant, the relations between grain and economic crops were more amiable. Hence, the adoption of a suitable grain import policy during the Eighth Five-Year Plan and the Ninth Five-Year Plan periods to ease the shortage of grain supply will help improve the structure of agriculture. There is a gap between the guaranteed rate of increase in grain production and the rate of increase in supply sought. If we try to close this gap by means of import, foreign exchange payments will be phenomenal and our port and storage facilities probably cannot cope. Past experience shows that the recommended course of action is to control annual grain import to about 30 billion jin, supplemented by the adoption of appropriate measures to speed up the popularization of new techniques and the comprehensive development of agriculture. When tackling the problem of grain supply, we should also take post-production losses into account. Such losses are estimated to amount to 10 percent of grain output, or 80 billion jin. The shortage of storage and transport facilities is said to be an important cause of such losses. During the Eighth Five-Year Plan period, the state should increase investment in the construction of warehouses for foodstuffs, particularly granaries. Reducing such losses is equivalent to increasing grain production. Further, it can enhance the state's capability of making up for possible shortages with surpluses, and prevent or minimize the repeated occurrence of situations where people have difficulty buying or selling agricultural products.

#### **VII. Strengthen Technological Transformation in Existing Enterprises and Promote the Industrial Application of High-Tech Achievements**

At present, the work of digesting, assimilating, innovating and spreading imported technology is proceeding at a slow pace in China. Only a small percentage of domestic scientific research achievements has been put into production, and only about 15 percent of the technical equipment of large and medium-sized enterprises in material production departments are up to international advanced standards. For this reason, the major material production departments have a high level of material consumption, and their export products cannot compete in international markets. The main reason for this state of affairs is that enterprises lack drive and pressure in the promotion of technological advancement. Technological advancement in the several hundred thousand industrial and communications enterprises of vital importance to the national economy as a whole has not been accorded strategic importance in our policy for the development of science and technology. The development of high technology is getting out of step

with economic development. This means that we have difficulty laying a solid economic and industrial foundation for the development of high technology. It also restricts and reduces the application and spread of high-tech achievements, and weakens our ability to compete with the developed countries in the economic, scientific and technological fields. This explains why China is still unable to overcome the incongruous situation where industries in general have remained backward long after it launched its first satellites. Although we compare favorably with the developed countries in a few high-tech areas, the gap between us in terms of the overall technological standards of the national economy is widening.

The key to putting an end to such a state of affairs lies in the establishment of a dynamic and efficient mechanism of scientific and technological research and innovation. We should try to tie the income of scientific and technological personnel to the application of scientific and technological achievements by reforming the management of science and technology and improving the technology market. Through a certain economic mechanism, scientific and technological development should be turned into a truly economic construction-oriented cause. In this way, scientific and technological advancement can help build up the strength of the state. Through efforts made to economize scarce resources, enhance the competitiveness of products and improve economic performance, it can also become the primary driving force of economic growth and the source of prosperity. During the Eighth Five-Year Plan period, efforts should be made to establish an efficient economic mechanism which links the three tasks of scientific research, innovation and popularization.

The key tasks of scientific and technological advancement in the next 10 years are: 1) Centering around the question of feeding over 1 billion people, we should strengthen the research and popularization of technology that can increase the output of agricultural products, transform medium- and low-yielding fields by scientific means and implement the plan for the comprehensive development of agriculture. 2) Taking the promotion of technological advancement in existing enterprises as the central link of scientific and technological work, we should try to raise the technological standards of existing enterprises in an all-round way. The import of technology and key equipment should have the transformation of traditional industries and existing enterprises as its primary objective. We should strive to bring the technological level of China's large and medium-sized key enterprises basically to the advanced world level of the early 1980's by the year 2000, with some enterprises (about 20 percent) having reached the international advanced level at that time. 3) We should develop high technology on a selective basis with specific areas of emphasis. The development of high technology should be guided by the practice of production, and the objective should be to industrialize and market high-tech achievements as products.



China has already formed a fairly comprehensive industrial system and has established a solid foundation for its heavy industry. It also boasts a large contingent of scientific and technical personnel. On the other hand, it is under the pressure of having to provide jobs to a huge labor force and cope with the shortage of construction funds. At the present stage of economic development and with existing resources, in order to give full scope to our strong points of having abundant human resources and a strong scientific and technological force, we should, in our work of readjusting the industrial structure and properly handling the relationship between labor, funds and technology in the next 10 years, strengthen the basic industries, continue to vigorously develop export-oriented labor-intensive industries, and strive to adopt advanced technology to upgrade the products.

#### **VIII. The Implementation of a Policy of Regional Economic Development that Combines Appropriate Preferential Treatment With Coordinated Development**

Regional economic development is the subject of quite a big debate at present. In this debate, the coastal regions stress the importance of gradient development and demand more favorable conditions for their development. The interior stresses the importance of narrowing the gap and demands that the development strategy of "inverse gradient" be adopted so as to shift the focal point of investment to the interior. Since the founding of the People's Republic, the focus of our economic layout has been shifted back and forth between the coastal regions and the interior for a number of times. This has inflicted heavy losses on the national economy. Hence, during the Eighth Five-Year Plan period, we should strive for further improvement and appropriate readjustment on the basis of the Seventh Five-Year Plan. Substantial changes in our economic layout policy and regional development strategy are not recommended. In accordance with the requirements of the industrial policy, the principle which combines appropriate preferential treatment with the coordinated development of different regions should be taken as the basic strategy of regional development during the Eighth Five-Year Plan and the Ninth Five-Year Plan periods. If the open coastal areas and special economic zones are able to make new breakthroughs in absorbing foreign capital, thereby pushing economic development in the coastal areas to a new level, it is likely that the economic gap between the coastal areas and the interior will be widened. Under the circumstances, corresponding policies of regional compensation have to be considered as a means of supplementing the interior. At the same time, we should eliminate regional economic blockades, promote the formation of a unified production factors market and product market, speed up the rational circulation of funds, labor power and commodities between regions, and improve the economic returns of the regional allocation of resources. The fact that the exploitation of mineral resources will have its focus on the interior during the Eighth Five-Year Plan period will definitely spur on the construction of communications

and transportation trunks, speed up the development of the interior, increase the supply of energy and raw and semi-finished materials to central and eastern China, and improve the economic layout.

The open coastal areas should target its economic development at the attainment of a highly developed industrial structure and the opening of international markets, and promote technological upgrading. In the coastal areas, the launching of projects which are likely to consume considerable amounts of energy and raw materials and involve huge freight volume should be restricted. Where conditions permit, existing enterprises and products which consume a lot of energy should gradually be transferred to energy-rich regions in the interior. The development of the open coastal areas should proceed step by step within actual capability, and efforts should be made to prevent another rush action that may result in new tension and losses. The central authorities should strengthen macroeconomic control in this connection.

The strategy for energy conversion in the midwest should be linked with the export-oriented economic development strategy for the east coast. The two should promote each other so that eventually a pattern of regional division of work will be formed, with the production and rough processing of raw and semi-finished materials in the midwest, intensive processing in the east, and the return of funds and technology to further spur on economic development in the midwest.

Efforts should be made to speed up the opening of the hinterland and the border regions to the outside world, strengthen the readjustment and transformation of enterprises in the third-line areas, give full scope to the strong points of these areas, which have a high concentration of military technological forces, and promote the combination of military and civilian production and the transfer of military technology to civilian industries.

A policy of giving preferential treatment which ensures the coordination of the industrial policy and regional development should be implemented. In giving its support to key industries, the state should differentiate between areas which are in a more favorable position and other ordinary areas. In a move that combines the policy of giving preferential treatment to selected industries with the policy of giving preferential treatment to selected regions, it should give more support to those areas which have done a better job of construction and technological transformation. In the open coastal areas, preferential treatment should not be extended to all industries and should be restricted to high-tech and export industries which can earn foreign exchange, the development of which are specifically called for by the state. In the interior, industries the development of which are specifically called for by the state should also be accorded appropriate preferential treatment.

The financial support given by the state to the "old, minority, border and poor" areas should help strengthen



the "blood-making" function of these regions and strengthen their self-expansion capability.

**IX. Maintain an Accumulation Rate of 30 Percent or Slightly Above, Reform the Accumulation Mechanism, and Redress the Problem of Unfair Income Distribution**

In the 1990's, China is faced with the tasks of debt repayment, construction and the improvement of the people's livelihood. It must properly handle the relations between these three tasks when allocating the national income. During the Eighth Five-Year Plan period, our repayment of foreign debts will average more than 30 billion yuan each year. This will account for two to three percent of the national income. Hence, the rate of accumulation during this period should be slightly below that during the Seventh Five-Year Plan period, when there was a greater source of foreign credit. This is precisely one of the reasons why we can only maintain a medium rate of growth during the Eight Five-Year Plan period. Seen from our past input-output coefficient, the sum of newly gained national income provided by accumulation per 100 yuan was 24 yuan during the Fifth Five-Year Plan period, 41 yuan during the Sixth Five-Year Plan period, and 46 yuan during the first three years of the Seventh Five-Year Plan period. Calculated at the level of the poorest performance, by keeping the rate of accumulation at 30 percent or slightly above, we will be able to guarantee an annual increase of five to six percent in our national income and still have ample capacity to readjust the industrial structure and eliminate the bottlenecks. In the meantime, 66 to 67 percent of the amount of national income spent may be expended on the people's consumption, and per capita consumption may be appropriately increased during the Eighth Five-Year Plan and the Ninth Five-Year Plan periods.

With total accumulation already fixed, we should strive to increase the efficiency of accumulated funds employed. As total social savings deposits increase, construction funds in China no longer come chiefly from government accumulation. The trend is to lay equal stress on government accumulation and social accumulation. Hence, we should turn more to indirect channels of fund raising when considering our means of employing funds. We should advocate frugality and encourage savings under all circumstances, and should refrain from blindly stimulating consumption due to temporary market factors. Many countries owe their economic take-off to people's savings. There is all the more reason for us to do the same as our country is experiencing a shortage of funds. During the Eighth Five-Year Plan period, positive steps should be taken to diversify residents' monetary assets and turn surplus purchasing power into a stable source of accumulation. At present, accumulated funds tend to be employed in scattered, small and low-technology items, and rarely do the funds of residents and enterprises automatically flow to the basic industries. To overcome these drawbacks, the central authorities should increase the proportion of accumulated funds at the disposal of state financial

departments in order to support the development of the basic industries and major technological transformation projects. In addition, a financing mechanism which is conducive to the pooling and concentration of funds should be established so that social funds can also be expended on the basic industries. This will also ensure the rational flow of funds and improve the structure of accumulation.

In order to control money supply while putting prices in order step by step during the Eighth Five-Year Plan period, it will be best to keep the average annual rate of price rise at about 10 percent. To this end, it is necessary to make wage and price readjustments dovetail so as to guarantee a higher real income for residents. A more positive approach will be to tie wages to prices by indirect means through annual increments based on the rate of increase in national income. It will give the state greater leeway and will create the necessary conditions for wage reform. However, we must see to it that readjustments are carried out annually and that the rate of nominal wage increase can keep pace with the rate of price increase during the period of economic improvement and rectification. When the economic improvement and rectification stage is basically over, the rate of nominal wage increase should be kept two to three percentage points above the rate of price increase so that the people will see improvements in their livelihood from year to year following economic retrenchments. The extent of improvement should be two to three percentage points below the actual rate of increase in national income. Measures should be taken to keep the rate of wage increase below the rate of increase in labor productivity so as to prevent the phenomenon of consumption funds getting out of control, which occurred several years back.

Unfair distribution and the tendency to distribute income in kind are two salient problems in the distribution of income. These problems must be rectified. There should be clearcut policy definitions regarding unfair distribution. Those who are efficient in work, have made outstanding contributions and have become well-off due to hard work should be protected. Unreasonable disparities in income resulting from market and nonmarket distribution mechanisms and the double-track price system should be regulated by means of economic levers. Resolute steps should be taken to strike at illegal income, particularly corruption and bribe-taking, and unreasonably high income should be brought down through rectification measures. Income distribution in kind is extensively practiced. Rectification in this connection must be spearheaded by party and government organs. The popular impression that "the monetary wage of party and government cadres has a high gold content" must be corrected even if it means raising their monetary wage. We should open the front door of monetary wage and block the back-door of distribution in kind and turn hidden distribution in kind into visible monetary distribution.

#### **X. Reform of Macroeconomic Management From Taking the Concession of Power and Profits as the Key Link to Taking the Switch of Mechanisms as the Key Link**

The overall concept for the reform of macroeconomic management should have the development of a planned commodity economy as its orientation and should follow the following principles: First, it should promote the switch in the mechanism of macroeconomic regulation and control; second, it should enhance the real strength of macroeconomic regulation and control; and third, it promote the development of a unified market. We should proceed from these three principles to create the necessary conditions for the correct handling of relations between planning and the market.

The problem with macroeconomic management several years ago was that too much emphasis was put on concession of power and profits, to the extent that the need to switch mechanisms was overlooked. Direct regulation and control were relaxed, but this was not followed up by reform aimed at bringing about indirect regulation and control. Macroeconomic imbalance became a salient problem in the operation of our economy because reform of macroeconomic management was gravely overdue. The direction we should follow in the reform of macroeconomic management is to gradually switch from taking direct regulation and control as the key link to taking indirect regulation and control as the key link. However, the scope and degree of this switch should not be tackled with undue haste. The switch should be continued right through the Eighth Five-Year Plan period on the premise of ensuring the balance between total supply and demand. We must rely more heavily on financial and monetary means to regulate and control economic activities. The main tasks include: 1) Draft the "Budget Law" and practice double-entry budgeting as quickly as possible. When we talk about striking a balance between financial receipts and payments, we cannot speak in general terms like "maintaining basic balance with a small surplus" or "maintaining basic balance with a small deficit." Instead, we should deal with each case on its own merits. When drawing up the regular budget (that is, budget for "everyday finance"), we must ensure that income exceeds expenditure and that there is a surplus. On no account must our budget show deficits. When drawing up budgets for economic construction, we may raise funds through such means as bond and stock issues in addition to the levying of charges on state assets. On no account must we directly approach the banks and make overdraft arrangements with them. This is an important institutional guarantee for striking a balance between total supply and demand, and should be realized as quickly as possible in the first half of the Eighth Five-Year Plan period. 2) Redefine budgetary and extrabudgetary funds. Part of the extrabudgetary funds, chiefly extrabudgetary receipts and payments at the disposal of government departments, may be included in economic construction budgets to facilitate macroeconomic regulation and control. However, funds originally earmarked for specific

purposes may still be used as designated. A relevant system should be established for funds that remain outside the budget so these will be subject to binding guidance planning. Further efforts should be made to put the "small coffers" of various units in order and halt the practice of seizing public property for one's own unit. 3) Complete the task of reappraising and revising the system of taxation as a whole, end the malpractice of indiscriminately giving preferential treatment, centralize the power of levying taxes and sort out existing regulations regarding tax reduction and remission during the period of economic improvement and rectification. In compliance with the call to bring into play the regulatory role of taxation, we should also merge and improve the income tax systems, change the abnormal state of affairs where state-owned enterprises have a heavier tax burden than collective enterprises and where collective enterprises have a heavier tax burden than individuals, and systematically replace product tax by value added tax. We should also minimize double taxation and improve regulation by means of taxation. 4) Reform the banking system and strengthen the macroeconomic regulation and control functions of the central bank. In the first half of the Eighth Five-Year Plan period, we should replace fixed quotas for deposits and credits by actual deposits and credits and make corresponding improvements in the system of deposit reserve and the central bank's system of relending funds. In the latter half of the Eighth Five-Year Plan period, the practice of running specialized banks as enterprises should be promoted in an effort to shake off administrative intervention by the local authorities and give full scope to their banking role. 5) Reform the management of monetary issue. The former practice whereby the rate of growth in money supply was worked out by adding the rate of price increase to the rate of actual economic growth was not only unscientific but would result in habitual inflation. From now on the amount of additional monetary issue should be worked out chiefly on the basis of the rate of economic growth.

We must increase the strength of macroeconomic regulation and control. This is because we must have the necessary financial and material resources in order to achieve the anticipated results of regulation and control. In 1989, the proportion of financial revenue to national income was below 19 percent, whereas it will take about 20 percent to guarantee the needs of "everyday finance." In the first half of the Eighth Five-Year Plan period, we must strive to increase the proportion of financial revenue to national income. If we can increase the proportion of financial revenue by three to four percentage points, in other words, by 30-40 billion yuan, we will find our going much easier. To achieve this objective, reform and rectification are both necessary. The specific measures include: 1) Centralize the power of authorizing tax reduction and remission. The granting of tax reduction and remission by the local authorities in transgression of their power should be strictly prohibited. Reduction and remission thus authorized should not be recognized, and tax payment recovered should belong to the central financial authorities. 2) Replace before-tax

repayment of loans by after-tax repayment of loans. Old loans granted before 1990 may still be repaid out of before-tax income, but this practice should not apply to new loans. The "indigenous policy" of repaying loans through the payment of product tax should not be recognized and product tax payment recovered should belong to the central financial authorities. 3) Prohibit tax evasion. At present, tax evasion is not only serious among the self-employed and private enterprises but is also found among collective, joint-venture and state-owned enterprises. This requires rectification. 4) Strictly prohibit apportioning in various forms. Donations must be expended out of the profits retained by enterprises. Profit delivery and tax payment must be pursued if they were separately included in the cost. 5) Consolidate price subsidies and business loss subsidies. After consolidation, all subsidies that should not have been given or are not essential should be stopped. Present estimates of revenue loss vary. One conservative estimate is that it is possible to retrieve 30-40 billion yuan through economic consolidation. This is also a realistic means of overcoming financial difficulties and increasing the strength of macroeconomic regulation and control.

Promoting the formation of a unified market is another important objective in our reform of macroeconomic management. While the methods of contracting currently practiced in different localities have succeeded in arousing local enthusiasm, they have also created regional blockades and market partitions. Macroeconomic regulation and control refer to overall regulation and control. The present system of fixed quotas for revenues and expenditures and the practice of assigning macroeconomic regulation and control targets, including money supply and price indexes, to the local authorities in contract form, are not conducive to the formation of a unified market. We should switch to regulation and control by economic means and abolish the practice of fixing financial quotas for various localities as quickly as possible. Financial contracting should be replaced by the system of separate taxation. During the Eighth Five-Year Plan period, a substantial step forward must be made in this direction. Product tax, business tax, value-added tax, tariffs and so on which have close relations with the unified market should be brought under the control of the central government. Since the ratio of distribution between the central and local financial authorities touches on a wide range of aspects, this change should be brought about step by step in accordance with changes in the division of functions between the central and local governments. A method which combines separate taxation with the sharing of taxes, which can take care of the interests of the localities, may be adopted. Eventually this should be replaced by the system of separate taxation.

#### **XI. Seize the Opportune Moment To Push Forward Price and Market Reforms, and Basically Resolve the Problem of the Double-Track Pricing of Capital Goods**

Economic improvement and rectification over the past year or more have created a relatively relaxed market

environment. Now is the opportune moment to carry out price reform. We should therefore seize this opportunity to push the price reform forward. The objectives of our price reform are, first, to put prices in order by achieving a more or less uniform profit rate on funds for all commodities and bringing about reasonable price relations, and secondly, to change the mechanism of pricing so that the prices of most commodities will be determined by the market. During the Eighth Five-Year Plan period, the extent of increase in the general price level is expected to show a drop from year to year. However, it is both unwise and not readily acceptable to the masses to bring the rate of price increase to below five percent within one or two years by resorting to the administrative means of freezing the prices of certain commodities when the price structure is still very distorted, and then allow the price index to soar to beyond double digits through the launching of price reform. During the Eighth Five-Year Plan period, we should put the distorted prices in order from year to year through controlled measures that combine regulation with the lifting of restrictions. The specific plan is as follows: On the premise of continuing to control total supply and resolutely keeping money supply under control, we should gradually reduce the factor of spontaneous price rise due to increased money supply to below three percent. This should leave us sufficient room for carrying out reform which combines regulation with the lifting of restrictions. The annual rate of price increase resulting from price adjustments and the lifting of pricing restrictions should be kept within the seven to eight percent range. The drastic price rise in the nine months preceeding 1988 had aroused strong discontent among the masses, but it had also increased their mental endurance for price rise. Provided that wage subsidies and the institution of a social security system can keep pace with needs, the masses are likely to find the above-mentioned price readjustment and lifting of restrictions acceptable on the whole. In the past, it was roughly estimated that putting the distorted price structure in order would push the general price index up by 50-70 percent. According to the plan outlined above, it is unlikely that prices can be completely put in order within the next three to five years. However, it is possible that irregularities that caused whole trades to be running at a loss and resulted in "inverse price regulation" can be corrected.

In order to deepen the price reform, we must differentiate between products that are subject to direct management by the state and products that are subject to indirect management by the state. The planned prices of products under direct state control must be scientific and reasonable. The pricing of these products must be brought under proper control, and steps must be taken to strengthen the examination and monitoring of policy implementation. Restrictions over the pricing of other products should be lifted step by step. In the meantime, we should also perfect the means and systems for the indirect price management of these products, improve market legislation, and oppose monopoly prices and illegal price rise. In the first half of the Eighth Five-Year

Plan period, we should gradually lift the price restrictions on those commodities which had already been freed but were again brought under control in 1989. On the merit of each case, we should also gradually lift the price restrictions on those commodities with basically well-balanced market supply and demand, and which are unlikely to produce violent price fluctuations if restrictions are lifted. In particular, restrictions on the prices of manufactured consumer goods should be lifted. During the Eighth Five-Year Plan period, that portion of pricing subject to market regulation or partial market regulation should be increased to 60-70 percent from the present level of 50 percent. Since control of the general price level chiefly involves the striking of balance between total demand and total supply, which is a task of macroeconomic management by the state, the administrative measure of assigning price control targets to the local authorities should be abolished as quickly as possible.

Controlling and gradually reducing price subsidies constitute an important aspect of the deepened price reform. During the Eighth Five-Year Plan period, "concealed subsidies" for all commodities except grain should gradually be replaced by "open subsidies," which are to be treated as income. In the end, buying and selling prices should basically be allowed to fluctuate along with market changes, with the state exercising price regulation and control through control over the quantities handled.

The double-track pricing of capital goods is a salient problem in our current economic life. In our work of putting the prices of capital goods in order, we should, in accordance with the principle of "combining readjustment with the lifting of restrictions and combining regulation with control," and in the light of the specific situation of individual trades or commodities, proceed from the easy to the difficult and strive to initially or basically merge the two tracks during the Eighth Five-Year Plan period. With regard to the prices of the few scarce but important capital goods under state monopoly, as well as charges for public utilities, such as the prices of petroleum, electricity, railroad and air transport, and major nonferrous metals, rent for public housing, and so on, we should combine regulation with control, with prices to be fixed or adjusted directly by the state. When eliminating the double-track pricing of these products, we may fix the level of single-track planned price on the basis of the overall average of planned price and market price. With regard to the large numbers of machinery and electronic products and raw and semi-finished materials with balanced supply and demand, such as cement and glass, we may adopt the method of lifting price restrictions and replace double-track by single-track pricing. With regard to coal, rolled steel, chemicals and other major categories, the merging of the two tracks may be realized along variety lines. Varieties the supply of which must be guaranteed, are subject to unified allocation or are scarce should be priced by the state (fixed or floating prices), while price restrictions on those varieties with balanced supply and demand may be lifted. With regard to those commodities which are

unlikely to see the merging of the two tracks in pricing, we may strive to gradually narrow the gap and ameliorate the contradictions by appropriately raising the planned price, controlling the self-marketing price and controlling demand. In the course of replacing double-track pricing by single-track pricing, some products should be brought onto the track of planned price, while the majority of products should be brought onto the track of market price. Efforts should be made to guard against the tendency to replace double-track pricing by single-track planned pricing.

The reform of the circulation system and the further maturing of the market are important conditions for the sustained, steady and coordinated development of the national economy. State-run enterprises handling commerce, goods and materials, supply and marketing, grain, and so on, shoulder the dual task of stabilizing the market, keeping prices down and ensuring supplies on the one hand and striving to exercise management autonomy, assume sole responsibility for their own profit and loss and improve their own economic performance on the other. Hence, the separation of government and enterprise functions and the separation of ownership and the power of operation are of a more peculiar and complex nature where enterprises in the sphere of circulation are concerned. State-run wholesale commerce which serve as "reservoirs," in particular, must make relevant stipulations in the light of the dual nature of their task when carrying out reform aimed at assuming sole responsibility for their own profit and loss. They should be allowed to keep sufficient circulating funds or reserve funds, or given preferential interest rates. Toward enterprises which are running at a loss, it is necessary to draw a clear line of demarcation between losses permitted by policy and operational losses so as to increase the benefits of subsidies.

As the objective of the reform of the circulation system is to promote the formation of a unified market and ensure the smoothness of the circulation channels, an "Anti-Monopoly Law" must be drawn up. Efforts must also be made to correctly handle the relations between different types of enterprises in the sphere of circulation so as to ensure harmony between different channels, distinguish between the primary and the secondary sectors, and bring about the optimum organization of diverse undertakings.

The focus of the reform of the agricultural product circulation system is the reform of the grain purchase and marketing system and price formation mechanism. The basic direction of the reform is to make greater use of the market regulation mechanism under effective macroeconomic regulation and control. To do this, we may proceed from different directions and try to approach the goal step by step. First, we should cut grain sale at par, make matching reduction in the volume of purchase according to contract, and increase the proportion of grain subject to market regulation. We may adopt the practice of unified objective and decentralized decisionmaking. In other words, the central authorities

should set a transitional period during which financial subsidies for grain sold at parity are to be gradually reduced in accordance with stipulated control targets, and the city authorities may decide on their own the pace and specific mode of their reform. Second, we should readjust the contract price of grain and bring it more into line with the market price. As a corresponding step, efforts should be made to increase the legal binding force and fulfillment rate of purchase contracts. On this basis, we should abandon the practice of closing the market during the season of state purchase, eliminate regional blockades, and maintain the continuity and unity of the grain market. The complete opening of the grain market and the thorough transformation of the price formation mechanism for grain involve a wide range of work, and it is generally believed that these should be left until after the prices of all other products have basically been put in order. However, as seen from the situation in Vietnam in recent years, the difficulties involved in the opening of the grain market are not as great as expected. We could perhaps try to make bigger strides forward. In the first half of the Eighth Five-Year Plan period, grain rationing may be appropriately reduced, and other rationing at par may be abolished. In the latter half of the Eighth Five-Year Plan period or during the Ninth Five-Year Plan period, the ration system should be abolished altogether. Following the gradual opening of the grain market, we should increase the rate of taxes in kind and establish a system of grain reserve, so that the state will have the necessary strength to regulate and stabilize grain price and ensure supply. Where economic crops are concerned, an equilibrium fund must be established in the realm of circulation for the purpose of stabilizing the peasants' income and the yearly fluctuations between supply and demand, and preventing sharp increases and declines in production.

During the Eighth Five-Year Plan period, we should consolidate and perfect various markets that have taken shape, develop the commodity market, particularly the capital goods market. With the realization of a system for the trading of capital goods as our central task, we should put the running of enterprises dealing in goods and materials on a market basis, and through this, promote the development of the capital goods market and the reform of the materials circulation system. We should open the technology market, promote equal and free trade between the supply and demand sides, and bring about "the combination of technology and trade" in the technological commodity market. The money market should also be developed. In the next two or three years, we should concentrate on restoring the short-term money market while developing the long-term money market and other nonbanking credit institutions on an experimental basis. Efforts should also be made to nurture and develop various kinds of markets which are already taking shape, such as markets for stock and securities, foreign exchange, labor services, information and futures, and ensure their coordinated, balanced and steady development. We must continuously strive to improve and perfect the market regulation mechanism

under planned guidance in order to promote the sustained, steady and coordinated development of the economy. The nurturing of every type of market should be backed by relevant reforms of the price formation mechanism. Through the gradual conversion of the price formation mechanism and the realization of internal unity of the pricing system, we should guide the rational allocation of resources by ensuring that wages, interest rates, exchange rates, rent, the prices of stocks and securities, and commodity prices can adapt to changes in supply and demand and meet the requirements of the law of value.

## **XII. Improve and Develop the Contracted Managerial Responsibility System for Enterprises and Further Promote Enterprise Reform Aimed at Separating Government and Enterprise Functions and Separating Ownership and the Power of Operation**

Changing the relationship between the state and enterprises, separating government and enterprise functions and invigorating the enterprises are important links in the reform of the economic system. Several years ago, we put undue emphasis on arousing the enthusiasm of the localities and did not take any effective step to promote the conversion of enterprise mechanism. The tendency toward the "feudal fiefdom economy" was exacerbated because the ties between the local governments and enterprises were strengthened. As we see it now, how to properly handle the relationship between the state and enterprises, bring about the separation of government and enterprise functions and make enterprises operate independently and assume sole responsibility for their own profit and loss is a much more rudimentary, important and difficult problem than trying to properly handle the relationship between the central and local authorities and make the transition to the system of separate taxation, a problem which needs to be resolved with concentrated efforts through reform in the next five to 10 years. After the commencement of the Eighth Five-Year Plan, the contract system for enterprises covered by the state budget will expire. There are conflicting views on what should be done. The contract system is a practical choice for reducing the government's administrative intervention in enterprises and for separating ownership from the power of operation when prices have not yet been put in order, when the market system has yet to be improved, and when competition is not yet equal; as this system is conducive to increasing the management autonomy of enterprises and arousing the enthusiasm of the directors, staff and workers in increasing both production and income. However, the enterprise contract system is not entirely above the "confines" of the government's administrative control and is but a system of commissioned operation. Drawbacks are thus unavoidable. We should sum up experience and improve the contract system by fostering the strong points and eliminating the drawbacks when the contract system enters a new round in 1992. 1) To counter the drawback of fixing base figures at random in contract negotiations, the contractual management of state-owned enterprises should be developed to cover assets and returns thereon instead of

just covering profits and taxes. Different average earning rates should be fixed for different trades and regions, and the contract base figures should be correctly fixed on the basis of a strict assessment of state assets. 2) The separation of taxes and profits, after-tax contracting and after-tax repayment of loans should be promoted. These may first be tried out in enterprises with better economic performance and should be gradually popularized toward the end of the Eighth Five-Year Plan period. 3) To counter the short-sighted activities in some enterprises, we must combine contracting with the medium- and long-term development planning, technological transformation, equipment maintenance, and so on, of the enterprises concerned. Within these enterprises, a mutually restraining mechanism of distribution should be established between total wages, profits and taxes realized, appreciation of assets and all-personnel labor productivity.

Due to its inherent drawbacks, the enterprise contract system has difficulty making enterprises truly independent and capable of assuming sole responsibility for their own profit and loss. In order to make enterprises truly capable of assuming responsibility for their profit and loss, we must ensure their property rights on the premise of upholding the public ownership system as the mainstay. A possible program is to divide state ownership so that the state will retain the "ultimate ownership" while the enterprises will have "corporate ownership." Of course an organizational form for realizing this must be found. It appears that the shareholding system is the form we are looking for. In the first half of the Eighth Five-Year Plan period, we should continue to consolidate existing pilot projects to standardize practice and improve legislation on the basis of summing up experience. In the latter half of the Eighth Five-Year Plan period, we should launch new pilot projects and make positive efforts to create conditions for the popularization of experience. A system for the management of state-owned assets has already been established. Based on the principle of the division between the administrative management function of the state and the owner function of enterprises, we should ensure the fulfillment of state-owned asset management system, gradually put the relations between the state and enterprises in order, and strive to establish the basic framework of an asset management system that meets the needs of the development of the commodity economy within the Eighth Five-Year Plan period.

Besides perfecting the contract system, other forms should also be considered for the reform of enterprises. These include: 1) On the basis of an increase in the funds of enterprises, the development of horizontal ties and the pooling of idle funds in society, various forms of the shareholding system will see new development. New enterprises should try as far as possible to raise funds in the form of shareholding. It is more complicated for existing enterprises to switch over to the shareholding system. During the Eighth Five-Year Plan period, further experiments may be carried out on a limited scale.

When carrying out experiments, we should guard against the tendency of turning shares into bonds, stop up loopholes that may lead to the loss of state-owned assets, and gradually standardize the shareholding system. 2) The trial implementation of the leasing system in some small, labor-intensive enterprises should be continued as it can do a better job than the contract system in separating ownership from the power of operation. However, rentals should be fixed scientifically. Rentals not only should be based on fixed assets and circulating funds, but should take into account various kinds of differential income, such as location, patent and good name. 3) Those enterprises which have a long record of losses due to poor management may be put up for auction.

### XIII. Continue To Develop Diverse Forms of Ownership

After 10 years of reform and opening up the country to the outside world, a new pattern with the state-owned economy being the leading sector, the public-owned economy constituting the mainstay, and multiple economic sectors existing side by side has basically taken shape. During the Eighth Five-Year Plan period, diverse forms of ownership should continue to be developed.

A. Strengthening the leading position of the state-owned economy is the starting point for the readjustment of the ownership structure. We should remove the interest obstacles to the realization of management autonomy, and stabilize, improve, readjust and replenish various reform measures that have already been introduced in order to invigorate the enterprises. At present, we should, in accordance with the industrial policy and the requirements of intensive management, give support to large and medium-sized enterprises in their technological transformation endeavors. Due to inflation, the replacement value of existing fixed assets has gone up by 40-50 percent. The low depreciation rate has increased the nominal value of the profits of enterprises. This is a major loophole in the income of state-owned assets. We must increase the depreciation fund in accordance with the actual situation and the international standards. The increment of state-owned assets should be subject to the objectives of social benefits, economic development and coordination, and export-oriented and basic industries should be developed in order to invigorate the economy, increase income and provide guidance and assurance to the realization of the targets of social and economic development.

B. The healthy development of township collective enterprises can give full scope to resource advantages, meet the needs for the transfer of surplus rural labor, and speed up the industrialization of rural areas. In keeping with the increase in the rural labor force and the need to increase per capita income in the rural areas, an appropriate growth rate of about 15 percent should be maintained throughout the Eighth Five-Year Plan period. In order to improve the quality of township enterprises,



those enterprises with high consumption but low efficiency should be eliminated by making use of the interest rate and taxation levers.

While the system of ownership by urban labor collectives is being developed, ownership by social groups has also emerged. Labor service companies, joint associations and the like set up with funds from different social organizations have played a positive role in providing job opportunities, social services, and so on. Their social status should be clearly defined through legislation.

C. The individual economy and private economy are nonpublic economic sectors, but they play a positive role in developing social production, providing amenities for the people, and creating job opportunities. During the Eighth Five-Year Plan period, efforts should be made to stabilize the policies already laid down, and guide and encourage the positive development of these sectors within the limits permitted by the state. The individual and private economies are destined to develop along the lines of small-scale and scattered undertakings in China. Hence, even if their strength is doubled, that is, even if they account for 10 percent of the industrial output value, they cannot shake the mainstay position of the public ownership system. However, we should strengthen management and guidance by resorting to economic, administrative and legal means in response to the deviations which have arisen. The taxation policy should be perfected and the work of tax levying and management should be strictly carried out. Industries of the production and operation type should be encouraged, while industries of the circulation and consumption type should be subject to guidance and restriction. Hired labor protection law should be enforced to protect the rights and interests of employees and ameliorate the contradictions between employers and employees. Private property should be protected against infringement in accordance with law.

D. By the end of 1989, the three kinds of partially or wholly foreign-owned enterprises already numbered 22,000, with agreed-upon investment amounting to \$33.7 billion and direct investment amounting to \$15.4 billion, equivalent to about eight percent of state-owned fixed assets. During the Eighth Five-Year Plan period, the further development of these three kinds of enterprises might be affected by certain unfavorable factors. However, with our cheap labor and large market, we will be able to attract foreign investors if we can offer them a stable political and economic environment. Therefore, we should, through appropriate investment, taxation and other economic policies, guide the further development of these three kinds of enterprises in those trades that can help increase exports, foreign-exchange earnings and the production of import substitutes, and promote technological progress and the construction of urban infrastructure. With the formation of the Asian-Pacific economic center and the shift in the focus of Soviet economic development eastward, we should also pay attention to the distribution of partially or wholly foreign-owned enterprises to ensure balanced development.

The output-related system of contracted responsibilities should be consolidated and perfected. China owed its sustained agricultural growth and the prosperity of its rural economy during the past decade to a series of rural reforms centered around the system of contracted responsibilities on the household basis with remuneration linked to output. Whether or not the accomplishments of reforms can be consolidated and whether the reforms can be deepened are key factors that will determine whether we can maintain steady agricultural growth, push grain production to a new level and sustain rural prosperity in the next 10 years. In consolidating and perfecting the output-related system of contracted responsibilities, the central task is to establish and perfect the two-tier system of operation. The contracted economic undertakings of peasant households constitute the foundation of two-tier operation. These undertakings have seen considerable development in recent years and are major contributors to the development of the rural commodity economy. However, the original collective economy, which represents the tier of unified operation, has been weakened. In many localities, unified service only exists in name in two-tier operation. Hence, socialized services should be improved. In this connection, the enthusiasm of various quarters should be brought into play. First, regional cooperative organizations for production services which are beyond the means of individual peasant households but which are urgently needed should be established by utilizing the economic strength of existing collective organizations. Second, county and township governments should also undertake to provide socialized services for agricultural production in the form of contracting by scientific and technological groups, the coordination of supply, production and marketing, and so on. Third, specialized cooperative organizations set up spontaneously by the peasants are good forms for the provision of agricultural services. Special efforts must be made to tap their enthusiasm. The localities should only carry out probing on agricultural operation to scale and put this into practice when conditions are ripe and on the premise of voluntary participation by the peasants. The focus of operation to scale should be put on the appropriate improvement and consolidation of existing scattered plots. In order to prevent the further parceling of land and encourage planned parenthood, a policy which does not provide any additional allotment of land for increase in population should be adopted.

#### **XIV. Take Appropriate Steps To Develop Exports and Improve Economic Relations With Foreign Countries**

The economic sanctions imposed by Western countries after "4 June" have created considerable difficulties for us. However, capitalists invariably want to make money, and they still have to do business. Provided that we can handle things properly, we can turn the situation to our favor. During the Eighth Five-Year Plan period, we should continue to control domestic demand and should not do anything to stimulate the domestic market. This will reduce competition between domestic and foreign

trade for sources of materials and will provide an excellent opportunity for the development of exports. Although our manufactured consumer goods are not very competitive in Western markets, they are very much sought after in the Soviet Union and other East European countries. It is true that we have encountered obstacles in securing foreign loans, but hot money amounting to hundreds of billions of dollars is floating in the international market. Thus, while seeing the difficulties, we should also recognize the favorable factors.

During the Eighth Five-Year Plan period, the basic pattern of domestic factors is fixed. The most elastic variables will be outside factors. By taking the appropriate steps, the whole situation can be enlivened. The principal obstacle to the development of foreign trade is poor performance. The faster the development, the greater will be the burden on the state financial authorities, as more subsidies will have to be paid out in subsidies. Hence, in our effort to increase import and export trade, we should pay attention to improving the macroeconomic results and the structure of import and export trade, increasing the proportion of exports with a higher technological content and greater added value, and increasing the exchange earnings per unit of export commodity. In the meantime, we must overcome blindness in imports, control the varieties and quantities of imports and strive to bring about a favorable trade balance in order to smoothly tide over the repayment peak during the Eighth Five-Year Plan period.

We should continue to reform the foreign trade system during the Eighth Five-Year Plan period. While improving the system of contracted responsibility for the operation of foreign trade, we should also try out and popularize the combination of trade and industry with technology, comprehensive commercial associations and other forms of foreign trade operation, promote the combination of trade and technology and the system of import agents, and increase the export enthusiasm and economic performance of enterprises producing export goods. While implementing the strategy of the intensive management of bulk exports and the unified management of foreign trade, we should support endeavors by medium-sized and small enterprises in diverse economic sectors to earn foreign exchange through export. We should devote major efforts to the development of import substitutes, tightly restrict the import of consumer goods, curtail the spending of foreign exchange on imports, and strive to maintain a balance between receipts and payments in foreign trade. Through promoting the reform of the financial and foreign exchange control systems, we should continue with our effort to put an end to the practice of unified state responsibility for profit and loss, with everybody eating from the same big pot.

Further reforms should be carried out in respect of foreign exchange, foreign debts and the management of foreign capital. When reforming the system of foreign debt management, we should further clarify the "subject of liabilities," control blind borrowing by localities and

enterprises, reduce the foreign debt burdens of the central financial authorities and safeguard their credit repayment rating. When reforming the system of the utilization of foreign capital, we should strive to create a suitably relaxed policy environment in order to absorb more foreign capital and strengthen the management of the three kinds of partially or wholly foreign-owned enterprises through the promulgation of laws and regulations. In the near term, we should appropriately concentrate on the import of capital for wholly foreign-owned enterprises. When reforming the system of foreign exchange management, we should straighten the relations between units creating foreign exchange and units utilizing foreign exchange, as well as the relations between the administration and operational management of foreign exchange. In the management of foreign exchange, foreign debts and foreign capital, we should not simply stress the decentralization of power. At this stage, we need to strengthen centralized management and overcome confusion and "the losing out of lucrative business" in external economic activities.

The development and perfection of the foreign exchange market constitute an important aspect of the reform of the foreign exchange management system and the improvement of the results of foreign exchange utilization. The foreign exchange market and market exchange rates should exist as important supplementary means of the state for the organization and regulation of foreign exchange and official exchange rates. The practice of requiring foreign exchange settlement receipts should be adopted for exports. This practice will not only help strengthen the control and management of foreign exchange settlement, but will facilitate the central bank in controlling money supply and the market exchange rates. It is conducive to the development of the foreign exchange market for foreign exchange transactions, increase the opportunity and drive for export enterprises to expand their exports, and encourage the foreign exchange utilization units to make better use of their foreign exchange.

We should do a better job of running special economic zones, continue to develop the export-oriented economic undertakings in the coastal areas, stabilize various reform policies already introduced, and implement more open reform measures where conditions permit in order to give fuller scope to these zones as windows and bases for the opening of the country to the outside world.

#### **XV. Establish the System of Social Security in Conjunction With the Reform of the Labor and Employment System**

Labor and employment will pose a major problem to economic work during the Eighth Five-Year Plan period. The reason is that the baby boom of the 1970's will have reached working age by the 1990's. During 10 years between 1990 and 2000, nearly 10 million people will reach the working age each year, and about 700,000 of



them will become additional labor force. The readjustment of the industrial structure also requires corresponding readjustment in the occupational pattern of the labor force. The mechanism of elimination resulting from improved performance through market competition also means that labor employment will be faced with a grim situation during the Eighth Five-Year Plan period. There are three options for tackling this problem. The first option is to provide new job opportunities through economic growth. Since the rate of increase in jobs available is usually lower than the economic growth rate, it is necessary to increase the economic growth by a big margin in order to ensure full employment. The second option is to absorb the labor force by "letting five persons do the work of three." At present, there are large numbers of redundant personnel in enterprises, and these "jobless employees" account for about 20 percent of the number of employees. An additional increase will further lower the production efficiency of enterprises, which goes against the objective of requiring enterprises to assume sole responsibility for their profit and loss through the contract system. The third option is to acknowledge unemployment, but we have to bear in mind that a high unemployment rate will affect social stability. Hence, during the Eighth Five-Year Plan period, we can only adopt all three options at the same time, suitably relinquish the target of full employment, and keep the unemployment rate within the acceptable range of three to four percent. In the first half of the Eighth Five-Year Plan period, we may even tolerate the practice of "everybody eating from the same big pot" to a certain extent by keeping the number of "jobless employees" at 15 percent. In the latter half of the Eighth Five-Year Plan period, the development of the job market should be promoted. When unemployment is acknowledged, the question of who should be put out of job arises. This makes it necessary to put an end to the practice where people cannot be transferred to other jobs and to reform the employment mechanism. In this connection, we had tried to gradually establish a new mechanism which embodies choice and elimination through the institution of the labor contract system, the optimum organization of labor and other means. In actual practice, however, we never really touched upon the traditional system of centralized job placement, and the employment mechanism had not been changed. During the Eighth Five-Year Plan period, we must make a determined effort to make a bigger stride forward in the work of establishing and nurturing the labor market and bringing about two-way free choice between manpower supply and demand.

The employment mechanism needs to be changed. This, coupled with the fact that the aging of the population has picked up speed and there is a drastic increase both in the number of people who have gone into retirement and the amount of pension paid out, will lead to a series of social problems if we do not act soon by establishing a pension fund. Hence, we must carry out relevant reform of the social security system as quickly as possible. 1) We must establish an independent national unemployment

insurance fund. The fund should mainly come from contributions paid by staff and workers, enterprises and institutions according to regulations. It may also be collected by tax departments acting as agents, and disposed of by labor and employment departments. 2) We must establish a statutory system of social endowment insurance fund. The level of basic pension and endowment insurance should be worked out on the basis of scientific calculations, and a method which combines cash basis with a small accumulation should be adopted. In establishing the social insurance fund, the practice of reasonable contributions from the state, the collective and the individuals may be adopted as a means of fund-raising, and contributions may be paid in the form of tax. A part of the property rights of state-owned enterprises may also be allocated to the pension fund and the dividends thereon may be used to supplement the source of funds. Enterprises may also use their own funds to invest in business or shares and increase the value of the fund with earnings therefrom. Aside from statutory old-age insurance, individuals and enterprises should also be encouraged to take out supplementary old-age insurance. 3) We must establish a national system of poverty relief fund. On the basis of thorough investigations, we must have an accurate grasp of the number of households in the low-income bracket as well as the distribution of these households, and determine the standards and forms of relief in accordance with our national capability. 4) We must establish a medical insurance fund on a trial basis and continue to reform the system of free medical care. The medical insurance fund should be set up as a nonofficial organization, and the employing units and the individuals concerned are to settle on the sharing of the medical cost at the time of taking out the insurance. 5) We must positively guide the peasants to establish old-age insurance, medical insurance and other systems in the rural areas, while still encouraging families to take care of their senior members.

The social security system which existed in the traditional system of the past was in fact a welfare system where "everybody eats from the same big pot." It is thus necessary to introduce some market factors in accordance with the principle of combining the planned economy with market regulation. Without effective and feasible social unemployment and poverty relief systems, and the systems of old-age and medical insurance funds, it is impossible to change the employment mechanism and enterprise solvency and elimination mechanism. In order to eliminate the old system where "everybody eats from the same big pot," we must put the establishment of the social security system, which is a new form of "everybody eating from the same big pot," on the agenda of reform as quickly as possible.

#### XVI. Strictly Control Population Growth

Due to the population and age structure resulting from the baby boom of the 1962-73 period, over 11 million Chinese women will have entered the child-bearing age before the year 1996. In the first three years of the

1990's, about 13 million women will be in their peak child-bearing age. Such a large child-bearing population has seen no parallel in the Chinese history of demographic development. A new high tide of population growth is in the offing and it is unrealistic to think that we can completely steer clear of this high tide. What we can do is to try our best to contain the peak of the baby boom through effective population control so that the birth rate will not go up too abruptly.

We have now entered a new population crest which will continue until 1996. This will bring great difficulties to population control during the Eighth Five-Year Plan period. During this time, even the slightest decline in the birth rate will be difficult to accomplish. Four years after entry into the 1990's, the momentum of population growth will slow down. Hence, the population control targets for the Eighth Five-Year Plan and the Ninth Five-Year Plan periods should feature the lowering of the birth rate. The specific targets are as follows:

Year	Overall Fertility	Birth Rate (0/00)	Natural Growth Rate (0/00)	Year-End Population (100 million persons)
1990	2.10	20.6	14.1	11.27
1995	1.90	19.1	12.6	12.06
2000	1.70	15.1	8.6	12.80

The above proposed targets for population control during the Eighth Five-Year Plan period and up to the end of this century are rather exacting and can only be accomplished through strict control and effective measures. On the basis of reality, we should mainly concentrate on stabilizing existing policies, summing up and making good use of successful experience in population control over the past years, stepping up legislation, and accelerating the development of endowment insurance in the rural areas. Through the above measures, we will be able to greatly reduce the percentage of additional births and births outside state plans, and consolidate and increase the percentage of single-child couples. In the long-term and development perspective, we cannot always take administrative means as the basing point of population control. We should gradually switch over to the track of taking economic considerations and legal assurance as the mainstay, allow people to choose to have children based on interest considerations, and bring about the change from population control based mainly on administrative mechanism to population control based mainly on the interest regulatory mechanism.

#### **Economist Discusses Effects of Tight Policy**

90CE0472A Chongqing GAIGE [REFORM] in Chinese No 4, Jul 90 pp 15-17

[Article by Zhao Haikuan (6392 3189 1401): "Uphold the Tight Policy and Make an Effort To Enliven the Market"]

[Text] China has been implementing a tight policy in recent years as a part of the rectification and improve-

ment process. The policy has produced the following outstanding results:

1. The input of currency is under control: In 1989, 21 billion yuan was put into circulation, 9.8 percent more than in the previous year, but in terms of the actual amount and the rate of increase, it was not only much lower than 1988's 68 billion yuan and 46.7 percent increase but was far below what had been originally planned for the fiscal year. During the first four months of this year, things looked even better. As a rule in the past, money was put into circulation in the beginning of the year, but this year, not only has money been withdrawn early but the amount of withdrawal has been fairly substantial.

2. Savings deposits in the urban and rural areas have increased significantly: In 1989, nationwide, savings deposits in the urban and rural areas increased by a total of 133.4 billion yuan, an increase of 35.1 percent; this equals 1.83 times the 68 billion yuan increase in 1988 and surpasses the 121.4 billion yuan increase over the 33-year period from 1952 to 1984 by 12 billion yuan. So far this year, savings have come in even faster: In the first two months alone, it has increased by 46 billion yuan. The significant increase in savings reflects that the people now believe that the state's double-tight policy is working and is more confident in the state's economic development and ability to maintain monetary and price stability.

3. Prices are beginning to stabilize: The change in the price level is the best indication that China's tight policy is taking effect. In 1989, the nation's overall retail price level rose by 17.8 percent compared to the year before, slightly lower than the 18.5 percent increase in the previous year. It should be pointed out that we are talking about average price increase for the year, that is, the average price increase each month as compared to the same month in the previous year. This includes the "fantail" effect of price increase in the previous year on the current year. Specifically, the price level was fairly stable at the beginning of 1988 but soared in the second half of the year and peaked at yearend. Prices in 1989 started out on 1989's yearend price level, and although there was no significant price increase during the year, if we compare prices in the first months of 1989 to those in the same months of 1988, the apparent increase was significant: prices were 27 percent higher in January and 27.9 percent higher in February. As a result, the average price increase for the year as a whole was fairly large, although there was little new price increase in 1989; prices in December were only 6.4 percent higher than a year before. So far this year, prices have been even more stable. From January to March, the nation's retail prices rose only five percent compared to same period last year. Obviously so long as we continue to implement the tight policy, China's currency value and prices will gradually stabilize.

While rectification and improvement and the implementation of the tight policy have produced remarkable results, some new economic problems have also emerged:

1. The market has been weak and sales have stalled. Total retail sales in 1989 came to 810 billion yuan, up 8.9 percent from the previous year, but taking into account the higher prices, actual sales were down 7.6 percent. Beginning in the second half of 1989, the sale of products which had been in short supply and had caused panic buying in 1988 began to slow and stall. Household electrical goods, expensive cigarettes, liquor, luxury consumer goods, and even some capital goods ran into this problem, as did the sale of woollens, sugar, and other daily necessities. As a result, the commercial sector is reluctant to order goods from the industrial sector, and finished goods are piling up in the industrial sector.

2. There is a shortage of current funds. Because of the growing stockpile of manufactured goods and increasing incidents of delinquent payment for goods, funds are not circulating properly, and in addition, because banks are maintaining a tight credit policy, enterprises are generally short of current funds. This is true for small and large enterprises alike. Although the state's key industrial enterprises can obtain more bank loans, because other enterprises are defaulting on payment for some goods sold, they too have a current fund shortage.

3. The drop in the rate of increase in industrial production has been too sharp: One of the goals of rectification and improvement and the tight policy is to cool the overheated economy. This goal has already been achieved, but in the last 6 months or so, the rate of increase in industrial production has fallen sharply. Compared to the same period a year ago, the nation's industrial output value (based on comparable prices) fell 2.1 percent in October 1989 and grew but 0.9 percent in November and 3.4 percent in December. This year, industrial output value fell in the first two months and rose 1.4 percent in March—the cumulative output value for January through March was 415.8 billion yuan, only at par with previous year's level. To solve these new economic problems and accelerate the rate of economic development, the state has adopted some new measures, the most important of which is to increase bank loans. In the fourth quarter of last year alone, banks boosted credit by more than 120 billion yuan. These loans have produced some positive results: The tight supply of enterprise current funds is easing and negative industrial growth is being reversed. But the aforementioned problems have not really been solved. In a weak market, despite the increase in bank loans, the stockpile of manufactured goods will continue to grow and the supply of current funds will remain tight. Thus, increasing bank credit alone will not solve the present economic problems.

The market slump in China actually began in the second half of last year and has lingered for more than six months. There are many reasons behind this weakness,

the most important of which are: (1) Reduction in capital construction investment and effort to control the rate of increase in consumption funds have led to reduced demand for basic construction materials and other related capital and consumer goods. (2) The elimination and consolidation of companies and the reduced number of unnecessary commercial middlemen have reduced the pseudo-demand for goods. (3) Curtailed institutional purchasing power has led to a drop in the sale of some institutional consumption goods. (4) The panic buyings in the previous year have drained some of the purchasing power, and as market prices gradually stabilize, some citizens have decided to "buy while prices are going up but wait if prices are coming down." (5) The panic buyings in the previous year have jacked up the price of some products; others goods are simply not what the consumers want to buy. Overall, these reasons are related to the tight policy during rectification and improvement, but the market slump problem must still be solved promptly, because otherwise production cannot increase at a normal rate and the state cannot tolerate a low growth rate for an extended period of time, nor can the state sustain the tight policy forever.

Since the current market slump is related to the state's tight policy, can we simply repeal the tight policy, implement an easy money policy, substantially increase fixed-asset investment and consumption funds, and boost society's purchasing power as a way to deal with the problem? The answer is of course not. To do that will reverse the trend toward more stable currency and prices and will fan inflation, and although we may stimulate production in the short run, in the long run, as inflation gets worse, it will adversely affect economic development. Thus, we must maintain the tight policy and try to find a solution on that basis rather than do the opposite by repealing the tight policy.

On that premise, we of course can increase bank loans somewhat, try to satisfy enterprises' demand for essential current funds, and encourage enterprises to pay off their delinquent debts. In view of the slowing rate of price increase, we can also adjust the interest rate on savings and loans and reduce enterprises' interest burden. We can even increase capital construction investment somewhat, investing mainly in the major, planned construction projects and enterprise technological transformation, so as to put the excess stock of basic construction materials and the related capital goods to use. But we must focus on enlivening the market and increasing the sale of manufactured goods significantly. We must take firm action to unclog the channels between the production and circulation sectors, between the commercial wholesale and retail organs, and between the urban and rural areas. In particular, we must try to increase the supply of goods to the rural areas. China has a rural population of nearly 900 million. The rural market is vast, and if product sales in the rural areas increase, it will have a significant effect on enlivening the commodities market and boosting the sale of manufactured goods. In accordance with the current commodity

production, supply, sales, and price situations, we can also consider adjusting some product prices by raising some prices and lowering others and even decontrolling the price of some luxury consumer products which are not selling well, and let prices rise and fall according to supply and demand.

Unclogging the commodity circulation channels, enlivening the market, and increasing the final sale of goods not only can ease enterprises' tight supply of current funds and restore the rate of increase in production, but can also lower the enterprise loan rate, custodial fee, and deterioration cost and other expenses as well as production cost while increasing society's economic efficiency. Decontrolling the price of some luxury consumer goods which are not selling well will also facilitate price reform. In the past, we often implemented price reform when prices were going up, so that the people have come to associate price reform with price increase, prompting them to resist price reform. Decontrolling the above product prices today will signify that the prices of those goods are falling. If we implement price reform when prices are falling, it will facilitate the reform process.

China is a large socialist country. The domestic market is vast, purchasing power is strong, and total demand usually far exceeds total supply. Today's market slump and the fact that goods are not selling are unusual phenomena in unusual circumstances. If we seek unity of thinking, aim directly at enlivening the market as our target, and apply the aforementioned methods, we will be able to stabilize the currency and prices, and production will increase at a normal rate again.

### Jan-Aug Economic Indicators Show Increased Demand

OW2709115690 Beijing XINHUA Domestic Service  
in Chinese 1055 GMT 25 Sep 90

[Text] Beijing, 25 Sep (XINHUA)—In an analysis of six major economic indicators for the January-August period, the State Statistical Bureau notes that with the gradual success of measures carried out to relax macroeconomic control, the strain caused by insufficient demand in the previous stage of economic development is easing and the demand for investment and consumption is picking up. However, the bureau notes no improvement in the poor economic performance of the industrial sector. Following are specific economic performances during the period:

1. Investment continued to grow. From January to August, investment in fixed assets of the state-owned sector of the economy totaled 100.3 billion yuan, which was 5.8 billion yuan, or 6.1 percent, more than in the same period of last year. The increase continued the upward momentum achieved since a 5.4-percent rise during the January-July period. A significant change in the investment structure was the gradual recovery of investment in equipment renewal and technical transformation following an upswing in capital construction investment. The increase in investment in equipment

renewal and technical transformation during the January-August period was basically equal to that of the corresponding period of last year, and marked an end to a continual slide in similar investment since March 1988. Compared to the same period of last year, 23 of the 30 provinces, municipalities, and autonomous regions across the nation registered increases in investment from January to August. Generally speaking, the investment structure took a turn for the better. From January to August, investment in the energy industry rose by 23 percent over the same period of last year, while that in communications, post, and telecommunications increased by 15.2 percent. In terms of the proportions of total investment, the increases were respectively 3.7 percent and 0.9 percent more than in the same period of last year. Compared to the corresponding period of 1989, investment in the productive sector in relation to total investment increased from 74.4 percent to 75.5 percent, whereas that in the nonproductive sector decreased from 25.6 percent to 24.5 percent.

2. Workers' salaries continued their upward momentum. From January to August, the salaries of workers across the nation totaled 173.5 billion yuan, up 10.6 percent over the same period of last year. When price increases are factored in, the net increase was around nine percent, which was the fastest rise in workers' actual incomes since 1987. The growth in bonuses, however, decreased markedly. The total amounts of workers' salaries in 29 provinces, municipalities, and autonomous regions (Tibet excluded) all registered an upturn.

3. More loans were granted. To alleviate the shortages of funds and revitalize production and circulation, the money supply has been loosened, and more loans for various purposes have been granted since the beginning of this year. By the end of August, banks had extended 1,336.8 billion yuan worth of loans for various purposes. The amount was respectively 95.8 billion yuan and 59.2 billion yuan more than in the beginning of this year and the same period of last year. On the whole, loans granted in China's 30 provinces, municipalities, and autonomous regions were more than those extended at the beginning of the year.

Although demand has spiraled upward, there have been no improvements in the poor economic performance.

The State Statistical Bureau is of the opinion that macroeconomic control should not be further relaxed in light of the rising social demand during the first eight months of this year. The bureau notes that the main task is to implement the State Council's various restructuring measures, particularly those governing the investment capital for fixed assets. It also calls for focusing on key projects, speeding up construction projects, working hard to put existing funds to effective use, and expediting the circulation of money, in order to further activate the economy. Along with the efforts to readjust the economic structure and improve economic performances, the bureau notes that it is necessary to quicken the pace of various reforms and to create the necessary

conditions for effecting sustained, stable, and coordinated growth in the national economy.

### **CASS Group Views Improving Economic Efficiency**

*HK1109010590 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 5 Jul 90 pp 13-18*

[Article by Economic Results Group, Industrial Economics Institute, Chinese Academy of Social Sciences; edited by Lin Daojun (2651 6670 0689): "Ways To Improve Economic Results"]

[Text] [Editor's note] This topic is a key research project under the state's Seventh Five-Year Plan. This article is part of such a research project. The responsible person of the Economic Results Group is Wang Haibo [3076 3189 3134] (researcher, Industrial Economics Institute, Academy of Social Sciences). Members of the group include Liu Shijin [0491 0013 6930] (doctor of economic science, Industrial Economics Institute, Academy of Social Sciences); Zhuang Zhiyi [8369 1807 3015] and Niu Renliang [3662 0088 0081] (doctoral candidates of Economics Department, Graduate College, Academy of Social Sciences). The principal writer of this article is Liu Shijin. [end editor's note]

Many of the current problems faced by China's economic development are, in the final analysis, related to the basic issue of having poor economic results. Ever since reforms were carried out, the central authorities have repeatedly stressed that every aspect of the economic work must focus on the direction of improving the economic results. Indeed, there has been improvement in some aspects of the national economy. Nevertheless, there has not been any fundamental change in the general situation; that is, the economic results remain poor. Obviously, if we cannot make a major breakthrough point in the improvement of economic results, it will be very difficult for our national economy to get rid of the predicament, or to switch onto the development track of stability, cooperation, and efficiency.

To improve economic results, it is necessary that we must first further clarify in the guiding ideology of our economic work the standards of economic results. In other words, the short-term benefits of every item of the work must be subordinate to its long-term ones, and its partial benefits must be subordinate to the overall ones. Under these prerequisites, and in accordance with the principle of priority of benefits, we should adopt effective measures for policy development and structural reform, and make them really and effectively play their role of promoting an improvement of economic results. We are going to propose some assumptions on realizing a balance in the aggregated national economic volume, and in the composition of industries.

### **I. To Determine a Rational Aggregated National Economic Volume, and a Rational Growth Rate for Departments**

There are constraints of shortage in the economy. That is, under the condition of imbalanced growth, three kinds of state exist in the relations between speed and economic results: (1) When the speed is too low, a larger part of the existing productive forces (including those in departments making oversupplied goods, and possibly those in departments making undersupplied goods) will be left lying idle because of the shortage of aggregate demand. Hence, the fixed cost per unit product is increased. The under-supplied goods can meet the needs for over-supplied ones, and contradictions, if any, between the two will not be the prominent ones. (2) When the speed reaches a certain level, the fixed cost of products drops in the wake of an increase in the utilization rate of the whole productive forces. Besides, when the whole economy increases its speed, the growth rate of departments making over-supplied products exceeds those making undersupplied ones. The gap of supply and demand between the two is thus developed, and will widen. The capability of making oversupplied products in some departments will be left lying idle because of the shortage of supply from departments making the under-supplied ones. This thus pushes up the fixed cost of products. Consequently, two types of force to reduce and increase the production cost develop. When these two types of force are in a balanced state, the production cost will be at a turning point moving up from a low level to a high one. A corresponding economic growth rate for such turning point is the best growth rate of economic results under the condition of an imbalanced growth, or, putting it in general terms, the "appropriate growth rate." (3) When the speed is further increased, the gap between oversupplied products and undersupplied ones is further widened, so that the force of increase in the production cost will become stronger than that of reduction in the production cost. As a result, the production cost gradually rises, and the situation of economic results becomes poorer.

The aforesaid definition of "appropriate growth rate" was made under the prerequisite of a particular state in the gap between supply and demand of oversupplied products and undersupplied ones. There will be changes in such "appropriate growth rate" in the wake of changes in such a gap. Generally speaking, an increase in the national economy may be linked to four types of state concerning the composition: First, when the composition becomes more imbalanced, the gap between the oversupplied products and the undersupplied ones will be widened. Second, the existing composition remains unchanged. Third, when the composition becomes more balanced, the gap between the oversupplied products and the undersupplied ones will be narrowed. Fourth, the composition changes in a balanced way, and the gap no longer exists. It is not difficult to realize that the value of an "appropriate growth rate" in the national economy gradually increases from the first state to the fourth one. Judging from the improvement of the economic results,

we should take the fourth state as our goal, and should try every effort to avoid entering into the first and second states. We should strive for, and it is possible for us to realize, the third type of state.

For this reason, we have determined, according to the fourth type of state, an appropriate growth rate for the aggregate national economic volume, and for every department under the conditions that the composition is a balanced one, so that when we readjust the composition, there will be a significant reference for maintaining a rational growth in the national economy. In working out the method, we must first calculate an average value of various growth rate for a certain period (such as from 1979 to 1988), and by referring to the growth rate of certain years (such as 1983) in which the composition was relatively harmonious, we then revise the average value of various growth rate in accordance with the principle of increasing the growth rate of industries making undersupplied products, and decreasing that of industries making oversupplied ones. In addition, we must make room for development by focusing on the mean value, so that a realm of "appropriate growth rate" will be formed in the national economy, and among various key departments.

The realm of "appropriate growth rate" is worked out mainly by basing on the past experience and data. Even if it is taken as the goal, one should not simply apply it to a later period—because factors, as well as patterns of composition and connections, that support the economic growth will more or less change in such a period. It is highly possible that it will enter into the third state. In other words, the gap between supply and demand in other departments will not be eliminated, though the development trend of departments making oversupplied products (such as the processing industry) is checked in the national economy. In the past, the growth in departments making undersupplied products bounced back, but it was not strong enough. If we take such an assumption as the growth pattern, the aggregate value of "appropriate growth rate" will, logically speaking, be reduced in order to avoid a drop in the economic results caused by a structural dislocation, to avoid inflation, and other negative results. To put it further, the basic meaning of having an "appropriate growth rate" is to manifest the following principle: Under the precondition that the composition reaches, or is in a process of reaching, harmony, we should strive to achieve and attain a higher growth rate that matches the work. It should be said that this is another principle to which we must adhere in changing the aggregate amount as well as the composition of the national economy at a later period. Subject to such a principle, we may obtain a random realm for the appropriate growth rate by basing on the specific state of composition at each period. In such a process, it is also possible that we may develop a more precise and effective way and technology to determine the realm of "appropriate growth rate."

## II. Several Macroeconomic Measures for Controlling the Growth Rate of Aggregate National Economic Volume

Given the present condition that we are practicing a two-tier system, a relatively appropriate index for growth rate can only be an indicator or pointer for society, even though the planning institutes of the central authorities can work it out. Judging from our past experience, the actually achieved growth rate often fell far behind the index put forward by the government. To a certain extent, this indicates that the capability of the central government in readjusting and controlling macroeconomic operation has been weakened. The present mechanism established for allocating resources according to the principle of market readjustment is still at its fledgling and chaotic stage, and it is necessary for the central government to appropriately strengthen its authority in this respect. At the same time, however, we cannot give up our efforts to readjust and control the macroeconomics by using indirect means. This is because the readjustment and control of macroeconomics indicates the long-term direction of reform in the macroeconomic management system. Specifically, for the time being, we should strive to make progress in the following areas:

1. To strictly control the volume of currency issuance. Inflation is, in the final analysis, caused by excessive issuance of currency by banks, no matter how complicated are the causes affecting such issuance, or no matter who the person is, or how great is the pressure. There must be a rigid system governing such work. From now on and in the near future, we must determine an annual volume of currency issuance according to the growth in the national income; in the wake of progress in economic monetarization, and a slower rate of currency circulation; and by taking into consideration a less than five percent inflation rate to be caused by various factors, including a structural dislocation. We must strengthen the independent, scientific, and controllable nature of the work of currency issuance; and establish a system in which the central bank regularly reports to the National People's Congress [NPC] on the work of currency issuance, and in which plans of issuing currency are subject to permission by the NPC.

2. To strictly control the fiscal revenue and expenditure, and to strive to cut and eliminate the deficits. Nine out of the past 10 years of reforms saw a growth in deficits. If we deduct revenue derived from debts, each of those years was in the red. Totalling more than 60 million yuan, such deficits have formed the major source for having an inflation of aggregate demand. The reason for having such a huge amount of deficits is that in terms of revenue, the focal point of national income was fixed at a lower level, and that portion of revenue delivered to the central authorities dropped; and in terms of expenditure, it was mainly because administrative and management expenses as well as the amount of various kinds of subsidies and allowances rapidly increased. Recently, the state balanced such deficits mainly by the issuance of bonds. Nevertheless, one must repay the principal and

pay interest whenever he borrows money. This would inevitably increase the future financial burden. In particular, China's repayment of loans has reached the peak level, which will noticeably make the burden much heavier. Therefore, the basic solution for checking the inflation of demand by way of financial work is still the control of expenditures by adopting strict and effective measures. At the same time, we must strive to improve the utilization rate of economic construction, and of science, education, cultural, public health, and other facilities on which the state has spent money, so as to do more jobs by spending less. In view of the fact that the duties of the central government do not correspond to its financial resources, we may appropriately increase, in terms of revenue, the ratio of fiscal revenue to the national income, as well as the ratio of central fiscal revenue to the overall financial revenue. However, it should not be a sharp increase, or the shortcomings of being excessively centralized will develop.

3. To control the scale of investment in fixed assets by making various types of cooperation beforehand. Relevant studies have indicated that the positive correlation coefficient for the growth rate of investment in fixed assets and the growth rate of gross output of society is over 0.9. Therefore, to control investment in fixed assets is the key to preventing the economy from becoming overheated. The control of investment in fixed assets in recent years has been marked by the characteristics of being mainly through administrative means, being too heavy, and being implemented after such phenomena developed. Though a strong point of such an approach is that it may yield quick results, it brings about problems such as a sharp drop in the economy, huge losses in "semi-finished" projects, and a quick rebound in the demand of investment when we take a relaxed attitude toward the control. Therefore, the cost of such readjustment and control is fairly high. The basis of solving the inflation of investment is to change the imbalanced mechanism regarding the revenue received, and risks taken, by investors. Under the condition that in the near future there will not be any remarkable progress in reforms at the microeconomic level, it is almost inevitable that we incline toward the adoption of administrative means to control at the macroeconomic level the scale of investment. Nevertheless, we must improve the present control measures in the following aspects: (1) We should emphasize work that prevents a phenomenon from happening rather than work that deals with the phenomenon after it emerges. We should estimate a corresponding growth rate for investment in fixed assets according to the specified, appropriate growth rate of aggregate national economic volume. (2) We should limit investment to a specified scale by using such levers as investment planning index, scale of credit, interest on loans, and tax rates. (3) No matter what kind of control means we use, we should integrate the control of aggregate volume to the composition of industries, as well as the structure of enterprises, so as to increase the effective supply, as well as to improve the economic results, of investment.

4. To control the consumption scale and to promote a rational growth and distribution of individual income. Inflation of consumption is another important cause for the inflation of aggregate demand. As consumption inflation involves more individuals, it is much more difficult to control it than the inflation of investment. We must adopt a comprehensive approach to understand this issue. (1) Any attitude that takes the growth of individual income as an equivalent of growth of consumption is a conceptual mistake. In fact, individual income is composed of two parts, namely individual consumption and individual savings. After all, an increase in the individual income is a precondition for an increase in individual consumption. When there is an inappropriately rapid growth in individual income, there will easily be a corresponding increase in consumption. Before an internal mechanism that can effectively check acts of increasing wages at the expense of enterprise profits is formed in enterprises, the state should further popularize and perfect the practice of linking the amount of total wages to the growth of economic results. An approach of the work is: First, it should determine a more appropriate coefficient for such a link, so that the growth rate of worker's income will be lower than that of labor productivity, and that the principle of distribution according to work is implemented. In particular, it should attach great importance to incentives caused by an increase in bonuses. Second, it should establish a strict supervision system and allow the public to know more about the distribution of income. Those "gray" and "black" incomes, which are in a large quantity, should be declared by units and individuals, be reported by other persons, or be "made known" through investigations by relevant units, and so forth; and should be included as part of the channels for distribution of income. (2) Another important form of increasing the income of workers is income made by payment in kind. It eliminates the possibility of changing the direction of investment, and is powerful in pushing up the consumption inflation. As payment in kind is made without the awareness of the public, it is more difficult to check the practice. We should begin the work by controlling the consumption of social groups, and authorize independent auditing bodies to conduct regular checks on the accounting books of the enterprise in question. (3) Relatively speaking, it is rather easy for the state to control the workers' income. In areas where direct control does not work, and indirect control has not been effectively established by the state, a huge sum of illegal income will flow to the pockets of individuals when certain aspects of the circulation channels are centralized. This will even bring about an abnormal state of advance consumption. To deal with these areas, the government must improve its image of being weak and incapable. We must resolutely hit at all acts of seeking illegal profits, uphold the practice of levying taxes according to law, strengthen the tax collection teams, and promptly put an end to the situation where tax evasion is a common phenomenon. (4) To guide individuals to use their income for savings and investment purposes is another important aspect of checking the consumption inflation. Though the amount



of residents' savings rapidly increased in recent years, the financial structure still takes savings deposits in banks as the key element. Such a financial structure makes it rather easy to turn savings into consumption funds whenever there is a widespread prediction that inflation is on the way. The amount of consumption funds will reach a peak level within a short period, thereby causing drastic fluctuations in the market and in the whole economy. Undoubtedly, it is necessary for us to maintain and appropriately increase the proportion of residents' savings to their income in order to stabilize the financial and economic situations. At the same time, we should gradually increase the portion of investment in intermediate- and long-term instruments (such as securities and bonds) out of the residents' savings in order to preserve and increase the value despite inflation.

### III. To Increase the Input in Agriculture, and To Increase the Output of Agriculture

The input and output of agriculture involves the issue of economic results in two aspects: First, it is the structural economic results which will develop when there is coordinated growth, rather than "bottleneck" development, between agriculture and other departments. Second, it is the comparative economic results in agriculture. Therefore, the significance of improving the economic results of agriculture not only affects agriculture itself, but also the national economy as a whole. In order to improve the economic results of agriculture, it is necessary that we stress the input-output ratio in agriculture. However, we must first solve problems concerning the increase of input of agriculture.

1. To increase the state's investment in agriculture. The proportion of the state's investment in agriculture to its total investment in capital construction was 10.5 percent during the Fifth Five-Year Plan. The percentage dropped to 5.1 percent during the Sixth Five-Year Plan, and further down to about three percent during the Seventh Five-Year Plan. Obviously, judging from the experience of other countries, and by China's actual situation at the present stage, this was a low level. It should be gradually raised to over 10 percent.

2. To guide the rural capital to flow into agriculture. A significant reason that the input of capital to agriculture was insufficient in recent years is that a large amount of capital in the rural areas was absorbed by nonagricultural industries. A direct cause for this situation was that comparative benefits derived from production of agriculture, particularly, the production of grain, dropped. Under the conditions where the contracted responsibility system is popular in the rural areas, and where peasants have the right to determine the utilization of capital, we must solve step by step the above problem of having comparatively lower benefits in order to guide the rural capital to flow into agriculture. (1) We should take opportunities to raise the purchase price of grain, oils, and other agricultural products so as to narrow the gap between the purchase price and the market price. A factor that forced the state to set an excessively low

purchase price for agricultural products is that the sales price of such products was excessively low in urban areas. Therefore, we should place our focal point on cities in order to solve this problem. Otherwise, the higher the purchase price, the heavier the burden of fiscal subsidies on the state's shoulder. We may consider reducing the standard quantity of supply of cheap grain and oils, distributing a specified quantity of goods as relief to the poor population in urban areas, setting the maximum sales price, and so on in order to gradually replace the existing subsidies, and normally link the quantity purchase price of agricultural and sideline products, such as grain and oils, to their sales price. The state may, based on this, establish a readjustment fund and practice a set of protective prices consisting of the maximum sales price and the minimum purchase price in urban and rural areas so as to prevent the supply and demand of agricultural products from sharp fluctuations. Since such a fund will be utilized only in case of emergency, the amount may be much smaller than that of fiscal subsidies. (2) We should readjust the taxation system according to the principle of promoting grain production. We may adopt a set of differential tax rates in accordance with differences in the price and profitability of different agricultural products. We may levy a preferential and lower tax rate on grain and oils, while levying a relatively higher tax rate on cash crops. We should levy a lower tax rate on ordinary cash crops such as cotton, oil-bearing crops, sugar, and vegetables; and levy different tax rates on different varieties of the same crop. For example, in order to encourage the production of improved varieties of grain, we may appropriately reduce the tax rate on such grain. Furthermore, we should consider levying different tax rates on the use of land, so as to regulate the difference of benefits received by land-users resulting from the use of different land plots. (3) We should gradually stabilize the soaring price of agricultural production means. Over the years, the growth of agricultural production means was so slow that the gap between supply and demand was widened. Together with a chaotic circulation channel, the price of agricultural production means has been rising so that the cost of agricultural products was increased, which has directly undermined the enthusiasm of peasants in engaging in agricultural production. The basic way to put an end to this situation is to expand the production of agricultural production means. The state should give preferential treatment in terms of raw materials supply, taxation, pricing, loans, and so on to enterprises that produce agricultural production means. At the same time, we should consolidate the circulation channels of agricultural production means, constantly perfect the business operation method, minimize indirect links, and set ceiling prices so as to gradually stabilize the price of agricultural production means.

3. To establish and perfect an economic services system for rural areas while perfecting the contracted responsibility system with payment linked to output. The contracted responsibility system with payment linked to household output was the basis for a rapid economic



growth in rural areas, and for improving the economic results of agriculture. Whether or not the economic results of rural areas will be further improved depends on the work of stabilizing and perfecting the contracting system in rural areas. Since the contract term of land plots was too short, and contracts were not prepared in a serious manner, some rural grassroots organizations, as well as cadres, arbitrarily revised and canceled their executed contracts. As a result, some peasants developed a tendency that they avoided investing in land plots and simply took an attitude of taking without giving. In view of this situation, we should from now on strengthen the concept of law, as well as respect and guarantee the performance of contracts. In the long run, we should find and establish a compensatory system that conforms to China's realities for the use and transfer of rights of land plots. The surplus labor in China's rural areas is abundant. It is unsuitable for the majority of various areas, except for a few of them which are capable of gradually popularizing their operations at an appropriate scale, to set impractical goals in such respect. Neither should these areas take the scale of operation as the yardstick for judging whether or not they are upholding the socialist direction. On the other hand, we should uphold the principle of volunteerism, establish an intermediate service organization linking the peasants to markets, and solve problems concerning the fluctuations of agricultural products, as well as difficulties in buying and selling. At the same time, we should develop other types of rural economic services organizations to promote an optimal combination of production factors such as rural labor, capital, and technology, and to gradually integrate production-supply-demand with agriculture-industry-commerce to form an integral entity.

4. To increase the input of science and technology, and to try all means to increase the productivity ratio of land. China is a populous country with limited arable land. Its area of cultivated land is less than 1.5 mu per person on average. The major way of increasing the agricultural output depends on increasing the per-unit-area yield. This requires the input of science and technology, which is the key, in addition to increasing the input of labor and capital. At present, we should stress a number of those scientific and technological achievements regarding agriculture that bring quick results with little investment.

#### IV. Several Measures for Speeding Up the Development of Basic Industries

Like the development of agriculture, development of basic industries—mainly the energy, transportation, and part of the raw materials industries—requires us to increase the input, as well as the input-output ratio.

1. We should stabilize the amount of input in basic industries under the prerequisite that the proportion of fiscal revenue of the central authorities is increasing. Under the existing system and conditions, the central financial authorities have advantages that cannot be matched by other investment channels in such areas as

capital amount and investment insight in the construction of large-scale basic industrial projects. On investment in the basic industries, the central financial authorities should appropriately increase the investment sum in addition to providing an earnest guarantee.

2. Since it is obviously insufficient for us to develop the basic industries by simply depending on financial support of the central authorities, we must mobilize the enthusiasm of local governments at all levels, enterprises, and individuals in investing in the basic industries. A possible assumption is: to supply a variety of products from different regions to engineering projects of basic industries in certain areas, and to adopt a shareholding system among those local governments in question. While such a system carries, to a certain extent, a mandatory nature, it preserves the rights of local governments to their capital. Furthermore, the central financial authorities may issue bonds at a higher interest rate to raise funds for the construction of basic industries. Such bonds may be open to the public for subscription. Therefore, the state may pool together a large amount of construction funds for the basic industries with limited interest capital.

3. We should support the development of basic industries in terms of pricing, taxation, credit, contract base, and so on. Though the price of basic industrial products was raised to a considerable extent in recent years, the price of energy, transportation, and some raw materials is still too low. We should raise step by step those excessively low-priced products according to changes in the supply-demand situation. At the same time, we should offer preferential treatment in terms of taxation, credit, and so on; and appropriately reduce the contract base of basic industries. Such measures will, on the one hand, help encourage the flow of capital from processing industries to the basic industries; and on the other, they may strengthen the existing financial strength of basic industrial enterprises by giving them support in their expansion of reproduction.

4. We should take the development of basic industries as an important yardstick for judging the achievements of local governments. A more rapid development in processing industries than that in basic industries is often related to the goal of local governments, that is, to pursue a rapid but short-term growth in output value. Therefore, we should readjust the criteria for judging the practical work of local governments. We should take the development of basic industries as an important indicator for assessment in accordance with the principle of striving for a high growth rate corresponding to the improved economic results on the basis of structural readjustment. This includes an assessment of harmony between basic industries and processing industries, the state of investment in basic industries, influences of existing scale of basic industries on the long-term economic development, and so forth.

### V. To Restrict, Readjust, and Guide the Development of Processing Industries

Proceeding from the viewpoint that a structural dislocation will cause economic results to drop, problems that had emerged in the recent development of processing industries were, first, that the speed was too rapid; and, second, that the level of consumption was too high. To processing industries, the most important question is undoubtedly to check their rapid growth. However, to simply impose restrictions on them may undermine the potential of growth, or may make them fail to effectively reduce the level of material consumption. Such restrictions should, and may, be integrated with readjustment and guidance. While we slow down the growth rate of aggregate volume, we should strive to change the composition of products, as well as structure of enterprises, into a direction that helps improve the economic results.

1. We should strictly control the scale of investment in fixed assets. The key to restricting the development speed of processing industries is to control their scale of investment in fixed assets. We should, in accordance with a rational growth speed and investment coefficient for processing industries, determine the scale of investment in fixed assets, strengthen the management of investment plans concerning fixed assets, set rigid conditions for approval of new projects, and resolutely put the scale of investment in fixed assets below the specified limit. No one is allowed to take a relaxed attitude toward it, or to exploit loopholes.

2. Both the central and local authorities should respectively set forth, according to the principle of maintaining a coordinated development between processing industries and basic industries, and that of improving the economic results, their lists of processing industry products in respect of which the production is subject to restrictions, elimination, and preferential terms. The said authorities should, on the basis of such lists, formulate guaranteed provisions in terms of loan amount, interest rate, tax rate, contract base, supply and transportation of energy and raw materials, and so forth. At present, they should guarantee and support the production of daily necessities; provide technology equipment for the basic industries; develop departments that help technological advancement and generate foreign exchange through export; and check or eliminate enterprises that have a high level of energy consumption or material consumption, that are backward in technology, and that are too small in scale.

3. Bidding and fund-raising for significant projects of the processing industries may be conducted among localities and enterprises, so that certain localities or enterprises will become the principal party to such projects. In the event that it is done through stock companies jointly established by several localities or enterprises, each party will share profits according to its share of capital. This approach may mobilize the enthusiasm of localities and enterprises in developing processing industries, and gives them opportunities for investment. This may also

ease or even solve the problem that under the system of decentralization, construction projects are duplicated and poorly located, and the structure of industries is similar among localities. The bidding may be organized by relevant central departments, or special service institutions in society designated by it. The procedure and results of bidding will be open to the public, so as to exercise supervision by society.

4. We should continue to devote major efforts to promoting the practice of contracting or merging enterprises by enterprises, so as to develop a variety of enterprise groups. We should, on the basis of summing up our experience in the implementation of the contract system, further expand and develop in an in-depth manner activities of enterprise reorganization and explore new ways to readjust the structure of enterprise organization. Local governments may, according to the level of economic results, give priority to the development of enterprises undertaking the same trade, set a deadline for them to improve their performance, or allow them to go bankrupt, close, or be merged with better ones. At the same time, they should encourage voluntary acts of coordination among enterprises and give such enterprises appropriate support in terms of external conditions.

5. We should integrate consolidation with guidance and promote the development of town and township enterprises to a new height. After reforms were carried out, the development of town and township enterprises was very rapid. Nevertheless, there were also problems such as backward technology, poor management, poor product quality, and poor economic results. Therefore, they should apply brakes to their development, and be subject to consolidation. Essentially, the rise of town and township enterprises was a comparatively independent movement of industrialization in rural areas caused by a protracted separation of rural areas from urban areas. Its development involved problems that have great bearing on the overall situation of the national economy, such as surplus labor, income difference between urban and rural areas, and industry-agriculture relations. Therefore, we should allow town and township enterprises to go through the process of development, readjustment, and growing up. In restricting the development of processing industries, it seems that we should take a different (an appropriately relaxed) attitude toward the town and township enterprises. In areas which were not the first to develop town and township enterprises, and where the development level is relatively low, we should guide them to develop trades that are based on the processing of agricultural and sideline products, as well as local raw materials. In areas where there has developed a basis for town and township enterprises, such as the coastal region in southeastern China, we should encourage these enterprises to upgrade themselves in terms of equipment, technology, quality, and management.

6. We should give full play to the advantages of the machine-building and power industries and improve the quality of processing industries. After decades of efforts, China's machine-building and power industries,

including most of its military industry, have achieved certain standards in terms of scale, variety, and technology. In the course of readjusting processing industries, we should strive to tap the potential of the industries. First, we should provide excellent technology and equipment to basic industries in respect of which the development is given priority. Second, we should expand the scale of import substitution as well as generation of foreign exchange through export in the industries. Third, we should devote major efforts to developing and producing equipment that employs advanced technology and consumes fewer materials, so as to promote technological advancement in, as well as a better composition of, processing industries.

## PROVINCIAL

### Gansu's Role in Western Development Viewed

OW1109041290 Beijing XINHUA in English  
0115 GMT 11 Sep 90

[Text] Lanzhou, September 11 (XINHUA)—The 4,108 km China section of the new Eurasia continental bridge will help revitalize the ancient international "silk road" and will turn Gansu, one of the least developed provinces in China, into an economic giant, according to leading Chinese economists.

The 10,800 km new railway route, which will connect China's east coast with the port of Rotterdam in Holland, will have a great influence on the development and foreign trade of the western part of China, said Tong Daling, a leading economist, and Ma Hong, director of the Development and Research Center of the State Council, at a recent seminar on the development of west China.

Governor of Gansu Province Jia Zhijie said that his province has laid a solid foundation for large-scale development of local resources during the past four decades.

In that time Gansu has been turned into an important base for the energy, metallurgical, nonferrous metal, petrochemical, machinery and electronics industries, as well as textiles and food production, said the governor.

In particular, the past decade has witnessed rapid progress in Gansu's power industry.

Jia said construction of the Jingyuan Thermal Power Plant and Lanzhou No. 2 Heat and Power Plant will soon be completed and put into full operation.

With a total installed capacity of 2,987,000 kw, three hydropower stations have been set up on the upper reaches of the Yellow River within Gansu Province, where experts say another seven can be built, Jia said.

He said preparation for another three hydropower stations has already begun.

Provincial economic officials said that four nonferrous metal production bases in Gansu Province will soon become the largest of their kind in China.

The four bases are Baiyin, Jinchuan, Jingyuan and Xicheng, each with an annual designed capacity of 32,000 tons of copper, lead, zinc and aluminum, 60,000 tons of nickel and copper, 20,000 tons of rare-earth metals and 200,000 tons of lead and zinc.

In 1989 the province's total value of foreign trade reached 150 million U.S. dollars.

Statistics show that in recent years its volume of trade with the Soviet Union has increased by an average 50 percent each year.

Almost all of the large and medium-sized cities in the province are situated along the new Eurasia bridge, said a provincial official.

The province has begun taking advantage of the new rail route by readjusting its industrial structure and expanding export commodity production.

### Liaoning Completes Panjin Ethylene Project

SK1809024890 Shenyang Liaoning Provincial Service  
in Mandarin 1030 GMT 17 Sep 90

[Text] The ethylene equipment of the Panjin Natural Gas Chemical Industrial Plant went into trial operation beginning at 1816 on 14 September. By 1919 on 16 September, it had produced up-to-standard ethylene and acrylic products, whose purity reached 99.85 percent. The Panjin ethylene project is a key construction project of our province for the Seventh Five-year Plan period. When it begins operation, it will be able to produce 130,000 tons of ethylene, 125,000 tons of polyethylene and 40,000 tons of polypropylene a year, and create 400 million yuan in output value and 200 million yuan in profits and taxes.

### Provinces Urged Not To Jeopardize Pudong's Chances

90CE0506A Beijing JINGJI RIBAO in Chinese  
6 Aug 90 p 2

[Article by staff reporter Chen Lei (7115 7191): "Working in Concert With Pudong Also Requires Acting in Line With One's Capability"]

[Text] After the party Central Committee and the State Council put forward the policy of developing and opening up Pudong, the policy drew widespread attention, because it not only is related to the development of Shanghai but also gives the inland provinces of the Changjiang River basin a good opportunity to develop. This reporter, on a recent news-gathering visit to some provinces, clearly felt the inspiration of the tide for developing Pudong. Many provinces have gone into action, taking various measures for working in concert

with Pudong's development and welcoming Pudong's "radiation" in order to seek a common development. This is gratifying.

However, at the same time, this reporter also saw that the symptoms of another trend—an inappropriate "craze for working in concert" and an inappropriate "craze for development"—had appeared in individual places. Under the circumstances in which there are not yet plans for overall development and detailed rules and regulations in specific policies, people in these places hurriedly announced that a particular region was also a special economic zone or an economic development zone in their own locality. In some of these places a confused battle is being fought over the preferential policy given to foreign businessmen. Those in contention say to the foreign businessmen: our qualifications are better than Pudong's; the price of land is cheaper, and so forth, with plenty of energy derived from everybody pulling together.

Over the past several years, during the critical stages of the interior's economic development, there has always appeared the phenomenon of people rushing headlong into mass action and then dispersing in a hubbub. Why is it that, at a critical moment in economic development, "a swarm of bees" has appeared? The reason, admittedly, is many-sided. However, one cannot but say that a very important part of the reason is that, with the major projects in one's own province being points of contention, and with the cutting off of a piece of the state's "investment pie" and sending it to the localities, there is the psychological state of fearing that acting slowly will mean taking losses.

Pudong's development is an important strategic plan drawn up by the central authorities based on the exceptionally advantageous conditions in economy, science and technology, and banking that Shanghai enjoys, as well as its geographical position; it is a sign of China's greater opening up to the outside world in the next 10 years. The central authorities have made the policy decision that within the next 10 years the foci of the opening up to the outside world will be put first on developing Pudong and opening it up to the outside world. We believe that Pudong's development and opening up will, like the opening up of the coastal provinces of Guangdong and Fujian over the previous 10 years, which spurred on some of the interior provinces, be bound to spur on and relate to the development and opening up of the provinces in the entire Changjiang River basin. However, we should also clearly understand that this certainly will not be accomplished in one move and within the year. Pudong's development, in the final analysis, is an enormous project that will carry over into the next century. In itself, the development is also a process of gradual construction and perfection, let alone the fact that the degree of its external "radiation" not only will be restricted by its own rate of development, but also must take into account the progress in economic development of the objects of its "radiation."

Some comrades now have this idea: working in concert with Pudong and depending upon its development may be likened to a "cold pancake" that must stick to a "hot pot." This idea, generally speaking, is not bad. However, we should consider the matter further. First, is the degree to which this pot is hot precisely because the pot was "preheated," or is it because the "heat" has reached the time when the "pancake" can stick to the pot? Second, since you want the "pancake" to stick, at the least you should think about what size you want the "pancake" to be, whether you possess the conditions to make a "pancake" of this size, and whether the "pancake" will be well made. To just rush headlong into mass action, not making any preparations and not doing things well, will be a case of the "hand" sticking to the "hot pot." Therefore, we say that to work in concert with Pudong one certainly must have the strength to do so. To ignore completely one's own qualifications in all things and rush headlong into mass action will not do. It runs counter to the objective process of economic development and is a case of the more haste, the less speed.

Again, if all our provinces, autonomous regions, municipalities, and even the prefectures and cities under them, all have their own special economic zone or economic development zone, how will the central authorities be able to concentrate the strength needed to develop Pudong well? In the end everybody will only be tied to a low level and a low standard, and it will be impossible for them to develop. In this way, not only will the concentrated strength needed to do things well be dashed to pieces, but also in every place the original undertakings that should be done in accordance with an objective process will be artificially held back.

Of course, we are not saying that everybody, except the people in Shanghai, does not need to have a sense of urgency and a sense of responsibility, and that they can sit back in their homes and wait. We hope that, while working in concert with Pudong's development, we all will judge the hour and size up the situation, seek the position we should be in during Pudong's development, and be able to play whatever role is needed in its development, thereby possessing the strength to do so. We must be sure not to disregard our own conditions and blindly clamber in competition to catch up with the tide, to contend for projects, and to contend for the momentum in investment. Otherwise, after "the heating goes beyond the limit" we will have to rethink our strategy and our losses will be great.

### **Economic Development Stressed in Western Region**

HK1809132790 Beijing QUNYAN [PUBLIC  
TRIBUNE] in Chinese No 8, 7 Aug 90 pp 6-11, 25

["Special Topic Pen Talk": "It Is Necessary To Attach Importance To Developing the Economy in the West"]

[Text] [Editor's note] Persons of various circles are very concerned about how we should develop the economy in the western parts of our country. Recently, the editorial

department of QUNYAN asked Professor Zhu Sunren, chairman of the Gansu Provincial Committee of the China Democratic League, to organize some scholars and experts to contribute articles on this topic. Among the participating comrades are (names arranged according to strokes):

*Wang Baoji, senior engineer, former head of the Northwest Institute of Survey and Design, the Ministry of Water Resources and Electric Power;*

*Cheng Guangren, research fellow at Lanzhou Institute of Animal Husbandry, the Chinese Academy of Agricultural Sciences;*

*Li Yuanfang, professor at Qinghai College of Animal Husbandry and Veterinary Science;*

*Li Guirong, senior engineer at the Water Resources Bureau, Ningxia Hui Autonomous Region;*

*Chen Fanglan, senior economist, the People's Bank of China;*

*Chen Zhijie, head of the Economic Research Institute of Qinghai Provincial Planning Committee;*

*Zhou Yixing, head of the Research Institute for Development of the West, the Chinese Academy of Management Sciences;*

*Zhang Yunxiang, senior engineer at the Electric Power Bureau of Qinghai Province;*

*Ma Gaoyun, associate professor at Ningxia College of Agricultural Sciences;*

*Han Fujun, deputy director of Economic Research Center of the Provincial People's Government of Gansu;*

*Huang Xunfang, associate research fellow and director of the Institute for Agricultural Modernization, Xinjiang Academy of Agricultural Sciences.*

#### **Seriously Study Development Strategy, Speed Up Development in the West**

**Han Fujun:** It is necessary and feasible to develop the west.

Judged from necessity, first, the 11 provinces and regions of the west comprise 70.66 percent of the total area of the whole country, border on 11 neighboring countries, and are areas inhabited by the minority nationalities. When political stability, national unity, and defense and security are considered, it is necessary to speed up its economic development and socialist modernization construction. This is needed for strengthening national unity, bringing prosperity to the national economy, consolidating frontier defense and the western parts on the one hand, and is needed for the basic interests of the people in the whole country on the other. Second, to adjust the industrial structure and economic pattern, it is necessary to speed up the construction of basic industries such as energy and raw materials, so as

to ease the acute conflict between total supply and total demand, and ensure a stable and coordinated development of the national economy. The western parts are the state's key industrial base specializing in energy and raw materials, as well as the important region "rich in two" resources. Speeding up development in the west is not only an important content of rational adjustment of industrial structure and economic pattern, but is also an arduous task and an obligation the western parts must fulfill. Third, by the end of this century, we have to realize our goal of quadrupling our national economy, and by the 21st century, the strategic point of economic construction in our country will shift to the western parts, and this requires that from this moment basic industries such as energy and raw materials save up adequate staying power. Basic industries require a huge amount of investment and a long period to build; if we do not seriously start working in this respect, it will inevitably affect prompt connecting of the industrial chain and coordinated development of national economy. Fourth, our country is a unified and developing country; the west is not an independent economic unit or economic region, and its development and exploration link closely to the development of the country as a whole. The problem of the west must be considered within the framework of the whole country. If the western parts lag behind for a long time, then there is no point in talking about stable and coordinated development of the whole national economy, nor common affluence, which is the purpose of socialism.

Judged from the feasibility of developing the west, first, there are great potentials in developing the resources there. Second, after 40 years of construction, it has a certain foundation for development. Third, it has a long border, and is convenient to opening up to the outside world. When we come to the concrete measures for developing the west, we must have a long-term plan and careful arrangements, and we must act according to our strength on the one hand, and try our best on the other. We must speed up the development, but must not rush. We must arouse the eagerness among the localities in the western parts, and observe the needs of the overall pattern of national economy. Therefore, the overall guiding thought for developing the west should be: Take energy development as the pioneer, raw materials industry as the mainstay, and processing industry and other industries as the corresponding parts forming a complete set; speed up the construction of transport and communication; rely on the current foundation, take reform and opening up as the motive force, and aim at developing the localities, at serving the whole country, and at entering the world; develop small tracts of land, seek breakthroughs in key points, unroll the development, and coordinate step by step, for a rapid economic growth in the west when its strong points in resources are comprehensively developed.

**Zhou Yixing:** As for the strategy for economic development in the western parts of China, I think that we should first study the following four problems:

1. Establish the status and role of the west in China's overall development strategy. Judged from the viewpoint of futurology, our country should build the west into a material and high-tech base for economic take-off in the 21st century as soon as possible. If we do not explore and develop the west with all our strength now, then economic development in the future in our country will lose staying power.

2. The state's long-term development plan is to include the development of provinces in the west into an economic region where development of resources is the mainstay. The west will surely win certain input in the areas of energy and raw materials industries. However, we must see the past disadvantages when development of the west remained only at the level of resources. After 40 years of development, the west still has a backward economy and culture. Therefore, at present, from the viewpoint of strategic thinking, we must make it clear that the purpose of exploration of resources in the west, and of development of economy in the west, should be rectification, improvement, and eventually optimization of its natural ecology and human ecology. I suggest that starting from 1990, we spend 20 years to rectify the ecological environment of the west, and improve its economic, cultural, and social environment for development, laying a foundation for prosperity and development.

3. We must properly arrange funds needed for developing the west. The biggest difficulty in exploring and developing the west is the serious shortage of funds. Over the past 40 years, the west has already built the energy and raw materials systems into certain scale, and from now on, the economic returns on developing the resources of the west should all be retained by the west; that is, we must adopt the principle of spending what is acquired from the west on the west, to solve the difficult problem of funds for development.

4. Properly evaluate the returns on investment in the west. For a long period of time, people often thought that the returns on investment in the west were low, but the fact is that in the west, the energy and raw materials industries set up since the 1950's have made important contributions to the country's economic construction. The so-called low returns are caused by the distortion of prices. To evaluate the returns on investment in the west, we should not only look at the returns purely from the angle of economic statistics, but must analyze the great role played by the returns in various aspects of the comprehensive economic, cultural, national, and social development of the west.

**Zhu Sunren:** We must formulate plans for the rural areas—vast areas outside the urban areas—in the way that we attach importance to the construction of the urban areas. The rural areas have 800 million peasants, and are the bases for agricultural, forestry, pastoral, and mineral production. The western parts of our country are particularly important. For this reason, I suggest that the CPC Central Committee and the State Council establish

an economic regulatory and control system, and according to the principle of soil economics, carry out a planned and comprehensive study on exploration of land resources, natural resources, and human resources in the west, and on social advancement. At present, first, we must resolutely curb blind comparison and implication, and overconsumption which are unrealistic and take means as ends; we must adopt administrative and legal measures to curb unlawful behavior in destroying mineral resources, water resources, forests, grasslands, animal resources, and ecological environment; with macro-level regulation and control, we must establish the thinking that the socialist motherland is an integrated game of chess, and strengthen cooperation among provinces and regions to attain common advancement and prosperity. As a wing of the west, the four provinces and regions situated in the upstream of the Huang He, namely Gansu, Ningxia, Qinghai, and Inner Mongolia, in particular should proceed from river economics; carry out comprehensive study on the problems of water resources, land resources, human resources, and society and economy; strengthen cooperation; and make contributions first to the multi-ethnic economic development zones in the upstream of the Huang He. All these are for laying a foundation for further development. Second, in order to fully utilize materials, we must pay attention to fully utilizing man's ability. In this aspect, if we make a vertical comparison, we find that we have made little progress, but if we look from the horizontal angle, the difference is big. For the sake of national survival, we must have the sense of urgency. We must take measures now to invigorate scientific and educational undertakings, and make it clear that investment in education is an investment of the productive nature, and that science and technology are also productive forces. We must spend every cent we can spare on running the educational and scientific undertakings well.

#### **Bring Superior Resources Into Full Play, Lay Emphasis on Developing Energy and Raw Materials Industries**

**Chen Fanglan:** To develop economy in the west, it is necessary to adjust the industrial structure in the west according to the state's development strategy and industrial policy. The adjustment of the industrial structure includes two contents: Stock adjustment and incremental adjustment. Stock adjustment is the adjustment of the currently existing irrational industrial structure. Some machinery industries and national defense industries were developed on the third front during the 1960's and 1970's, and were productive patterns formed according to the political demand at that moment; their raw materials and market were in other provinces. This pattern of two outsides caused double losses of interests, therefore economic returns were poor. These industries did not have any linkages to the production factors in the localities, and could not stimulate the development of other industries, thus leading to slow economic development there. The direction for adjusting these enterprises is: Bring the strong points in production factors in the local provinces into full play; improve linkages among

enterprises, elongate the chain of products, increase economic returns. This kind of adjustment must be active and stable, and must not jeopardize the current economic foundation. Incremental adjustment means development of the strong points in resources, and this is the main road for the west to optimize the industrial structure and improve economic returns. To do this, there are four problems to be solved: First, arouse the eagerness of the central authorities and the localities. For a long period of time, the central authorities have invested in and managed large-scale exploitation of resources while the localities only provided assistance, and the profits of enterprises have all been handed over to the central authorities, while the localities could only share some portion of the taxes, but the local revenue had to shoulder various subsidies and allowance for staff working for enterprises. This method of inclination of interest could not arouse the eagerness of the localities. I suggest that the central authorities and localities use their respective funds as money paid to establish shares and to develop enterprises, and organize managing boards to manage enterprises together. By doing so, the channel for fund raising can be expanded, while the localities can play the main role in enterprises. Second, according to the actual situation of the areas of minority nationalities, formulate preferential plans. Third, improve the Qinghai-Tibet Railway to create conditions for developing the resources in Qaidam Pendi. Other branch lines in the areas for development of resources should also be improved, to upgrade transport capacity. Fourth, gradually narrow and eliminate the scissors difference in prices of raw materials and processed products between the east and the west, to create a good and fair environment for the west to develop its economy.

**Chen Zhijie:** Since reform and opening up, various provinces and regions in the western parts of our country have consciously or unconsciously chosen and implemented the strategy which aimed at developing resources, and through developing the strong points in resources, transformed the industrial structure, upgraded industry, and enhanced economic development. However, along with the deepening of economic restructuring, this kind of strategy for transformation through development of resources has met with a series of restraining factors. For example, distortion of prices for energy, raw materials, and processed products causes double losses to the west; large and medium enterprises face the difficult task of adjustment; shortage of funds and poor natural conditions hinder economic development, and it becomes difficult to solve the problem of employment for a large number of persons with poor quality. In the aspect of stage of economic development, a "time lag" exists between the western parts on the one hand and eastern and central parts on the other. The development strategy of the west has a greater conflict with that of the east, causing bigger and bigger difficulties in local finance in the west. Therefore, the critical point of the problem is how we can closely integrate the implementation of the strategy for developing the

resources in the west with the process of economic restructuring in the whole country. To properly select mainstay industries, it is necessary to base on development of strong points, be beneficial to attaining coordination for industrial structure in the region, and be beneficial to rationalizing industrial structure in the interior; at the same time, it cannot break with the actual economic strength in the localities. In the past, when formulating and implementing the strategy for developing resources in the west, these kinds of problems have not been accorded adequate importance.

**Zhang Yunxiang:** Economic development in the west is to a certain extent dependent on the supply of electricity and the effective use of energy. The northwest is a region with abundant coal and hydraulic power resources. The way we bring this superiority into full play, plan the overall pattern, rationally develop and utilize it, and seek the greatest economic returns not only has great impact on the economic development in the western parts, but is also of great significance to the neighboring provinces and even to the whole country. For this reason I made two suggestions: First, give priority to the development of coal and hydraulic power resources, have a foothold in the region, then look at the whole country. Shaanxi, Gansu, Ningxia, and Qinghai have abundant coal and hydraulic power resources, but relatively backward economic development, and consume only seven percent of the electricity consumed by the whole country. They should grasp the chance arising from the serious shortage of energy in other areas, and vigorously develop energy resources, to lay a foundation for future economic development. The exploitation of coal and hydraulic power resources cannot limit itself to only attaining balance between supply and demand in the areas, but must be taken as the badly needed commodity which can be exported to other provinces and regions, so as to enhance economic development in the areas. Second, short-term development should take hydraulic power as the center, while construction of power generated by coal should be rationally arranged. Hydraulic power is a recyclable resource, and we should make use of it as soon as possible. In the areas, we should use more hydraulic power, less power generated by coal, and organize shipments of coal and electricity to other provinces, so as to seek the biggest economic returns. Of course, this depends on properly coordinating the economic relations among various provinces and regions, and on properly handling distribution of interests among them through comprehensive balance and price and taxation policies.

**Zhang Guojie:** In the upstream of the Huang He, the multi-ethnic economic development zone in Gansu is an area uniting the five big provinces and regions of minority nationalities, namely Xinjiang, Tibet, Qinghai, Inner Mongolia, and Ningxia. Its strategic position is very important. This area has rich natural resources, concentrated population, better economic foundation, and good conditions for development. It is of great significance to speeding up the development of this area



in Gansu, bring the strong points in resources into full play, stimulate economic development in the whole province, promote elimination of poverty and attainment of affluence, and reduce the difference between areas of minority nationalities and developed areas. In particular, amid the intensifying conflict between supply and demand in the country, to establish and expand energy and key raw materials industrial bases is of great effect to easing the conflict between supply and demand, embodying the state's industrial policy, and enhancing sustained, stable, and coordinated development of the national economy. At the same time, the development of this area is of profound significance to attaching importance to the modern "silk road," to speeding up the opening of the land bridge between the European and Asian continents; to expanding international trade and expanding exchanges with the Soviet Union, Eastern Europe, central Asia, and the Arab world; and to promoting opening up to the outside world. With active support from the state, the speeding up of development in this area is of great strategic significance to the present, the future, economy, politics, national unity, and social stability. When coming to the concrete steps for development, we must emphasize key points, proceed from small to big, and implement step by step. Relying on the current foundation, we must develop energy and raw materials industries and develop the processing industry, so as to stimulate agriculture and animal husbandry and to invigorate other economies. In the past two years, on the basis of overall planning, Gansu has selected five small areas with better basic conditions and carried out experiments, proceeded from strengthening basic facilities and improving investment environment, and effectively built a number of projects which required a small amount of investment and a short period of time, and showed quick results; it has initially formed the pattern of developing small tracts of land, and explored various ways for such development. We must further sum up, improve, and promote these experiences during the course of development; we must look for more experiences, and try our best to build these areas into bases for energy and raw materials production, as well as for agricultural and pastoral exploitation.

**Wang Baoji:** The developed countries usually attach importance to comprehensive exploitation of rivers and streams, and our country has scored certain achievements and experiences in this area. To develop economy in the west, we must further comprehensively exploit and utilize the important rivers in the west. At present, in the upstream of the Huang He, from Longyang Gorge to Qingtong Gorge, that is, along a 1,000-km river section, there are only five reservoirs and power stations, with a total installed capacity of 3.2 million kilowatts; there are at least 10 terraced power stations to be developed, with a total installed capacity of more than 11 million kilowatts. This is very important to solving the problem of flooding and ice runs in the upstream, midstream, and downstream of the Huang He; to expanding irrigation and providing water to urban residents and industry; to developing electricity, especially

low-cost and quality power supply to the electric power grid in the northwest and north China; and to developing water transport from Lanzhou to Tongguan or even to Zhengzhou. Similarly, we should also attach importance to comprehensively developing the upstream areas of the Bailong Jiang and the Han Jiang, and to various streams such as the Ili He, Kaidu He, Yarkant He, and Manas He in Xinjiang.

Water, power, and transport are the necessary basic facilities for economic development in the modern world. The comprehensive exploitation of rivers in the west, and the full utilization of water resources there, will play a very important role in economic development in the west.

**Wang Xunfang:** Over the past 40 years, our understanding of agriculture seems to have been: Whenever our economic construction runs into trouble, we will think of the importance of agriculture; whenever our economic construction is smooth, we will tend to look down on agriculture. In recent years, due to continuous bumper harvests, investment, finance, loans, and materials all inclined to industry and urban construction, leading to a slide in agriculture. Take Xinjiang for example, agricultural growth has slowed down in recent years. To develop economy in Xinjiang, it is necessary to further invigorate agriculture. In the final decade of the 20th century, to fulfill the state's duty of building the bases for cotton and sugar production, to satisfy the need for agricultural products arising from foreign trade and export after the North Xinjiang Railway is connected with the Soviet railway, to shoulder the new demand for agriculture in Xinjiang after our country's oil production shifts west, and to make contributions to doubling the economy by the end of this century, it is necessary to invigorate agriculture in Xinjiang. To invigorate agriculture, it is necessary to rely on science and technology. If the function of technology for agricultural advancement in Xinjiang can be upgraded by 50-60 percent, then agriculture in Xinjiang can go onto a big stage. Relying on science and technology to invigorate agriculture is not an empty saying; it has abundant contents, and different areas in different times have different concrete contents, with different criteria for assessment. To Xinjiang, the criterion for assessing reliance on science and technology for invigorating agriculture should be: 1) The role of agricultural science and technology for advancement surpasses 50 percent. 2) Per unit area yield of agricultural crops increases by more than 30 percent over the current basis. 3) Rational structure of proportion of investment in agriculture, light industry, and heavy industry, with investment in agriculture occupying more than 20 percent of the total amount of investment. 4) The nets and points for promoting science and technology in the rural areas should all be implemented and brought into play. 5) Selecting the best seeds for agricultural production, forming a complete set of production technology, and standardizing production technologies. 6) Regularize and institutionalize the effort to popularize science and technology in the rural areas as well as the

effort to wipe out illiteracy. 7) The level of agricultural modernization surpasses the average level of that for the whole country. If the above-mentioned seven criteria can be met, reliance on science and technology for invigorating agriculture in Xinjiang will be truly implemented.

In addition, the prosperity or decline in the oases and deserts in Xinjiang will seriously influence the improvement of agricultural ecology in Xinjiang. The problem of properly handling the relations among protection of oases, protection of deserts, and development of agriculture has already become a difficult one facing agricultural development in Xinjiang. Some people are in favor of ecological agriculture, saying that "ecological agriculture is the core of agricultural modernization in China," and thinking that "the five major characteristics of ecological agriculture are: large-scale agriculture; integration of industry and agriculture; integration of urban and rural areas; integration of traditional agriculture and modern agricultural technology; integration of traditional agriculture and the application of agricultural systems engineering; and multi-level utilization model." We cannot agree with these characteristics. Agriculture is an extremely complicated compound system; it obeys natural and economic laws, and involves many disciplines including physics, chemistry, economics, sociology, biology, and ecology. Ecology is only one aspect, and it cannot be taken as the whole, nor can we take ecological agriculture as the whole content of agricultural development. In this world, there is no country which becomes strong because of ecological agriculture; in our country, for several thousand years, the organic agriculture was "ecological," but it could not lead to agricultural modernization. It is right to protect agricultural ecology, but it is a thing different from "ecological agriculture." "Ecological agriculture" does not advocate input in agriculture from the outside, and its concept has already extended to the so-called "large-scale grain," "substituting forest for water," "dry agriculture," and "organic agriculture" etc. It weakens the importance of grain production, plays down the role of water resources, and adversely affects the development of chemical fertilizer industry and agricultural machinery industry. At present, in some localities, the phenomenon of reduced investment in water resources, of shortage of chemical fertilizer for agricultural use, and of incomplete sets of agricultural machines, is related to excess propaganda for "ecological agriculture." Xinjiang's soil has a serious problem of lacking phosphorus and nitrogen, and two-thirds of the land is below the low-yielding line, while the heat for cooking in the vast rural areas comes from biological materials, and the organic substances which can return to the soil are very limited. It is not feasible to advocate "ecological agriculture" and "organic agriculture" in Xinjiang.

Because there is a shortage of water resources in Xinjiang, agricultural development can hardly follow the road of reclaiming and cultivating wasteland. The only

choice is to start from intensification, and from optimizing structure. Intensification relies on policy, science, and input.

**Li Guirong:** To develop the west, agriculture cannot be ignored. Agricultural production in the northwest of our country relies mainly on irrigation. The shortage of water resources is the restraining factor which has an impact on the development of irrigated agriculture in the arid areas in the northwest. To solve this problem, we must proceed from exploring water resources and saving water for use. The method adopted by the areas irrigated by the continental rivers north of Tian Shan in Xinjiang is "integrating reservoirs and catchments, integrating wells and canals, and strengthening canals by bricks and stones to prevent seepage." The method adopted by the areas irrigated by the continental rivers along the Hexi Corridor in Gansu is "integrating large, medium, and small projects; paying attention to reservoirs, catchments, and dikes; and building layers of bricks and stones along canals to prevent seepage." These are effective measures for exploring water resources and saving water for use. Compared with these two irrigated areas, the areas irrigated by waters diverted from the Huang He in Ningxia have favorable conditions due to the existence of the Huang He, and thus the phenomenon of wasting water has been rather serious. It was not until the early 1980's that people realized the importance of saving water for use. Hence, the project of building layers of bricks and stones along canals was started comparatively late, and the length of layers completed along the main, branch, and lateral canals is less than 10 percent of the total length of the canals, while most layers are built only for resisting floods and protecting canals carrying water.

In order to save water resources, to improve low-yielding saline-alkali fields, and to materialize the project of cultivating the two areas of 1 million mu each, at present the areas irrigated by the Huang He water in Ningxia should refrain from diverting water from the Huang He for irrigation. The formation of the saline-alkali fields north of Yinchuan was mainly due to excess irrigation and rise of underground water. We should pump underground water to supplement irrigation water. By doing so we can solve the problem of shortage of canal water while also lowering the level of underground water; thus, it is beneficial to both aspects. At present, the volume of water in the Huang He is reducing, and the volume of water diverted by the irrigated areas in Ningxia has surpassed the limit set by the Huang He Committee. Therefore, to solve the problem of irrigation water for the "two areas of 1 million mu each," we should use the following methods:

1. Repair old canals and water conservancy facilities; strengthen management; prevent water from leaking and running away along canals; and reduce the wasted volume of diverted water.
2. Build layers of bricks and stones along irrigation canals; study and improve the ability to prevent seepage

by laying bricks and stones; improve the effective rate of utilization of canal systems.

3. Integrate wells and canals, use well water to supplement the shortage of canal water. Pumps and wells are to be arranged along main and branch canals, and managed centrally, for pumping water into canals on a fixed schedule. The canal water will dilute the well water, making it more suitable for irrigation.

4. Dig deep ditches, allow water to escape from above and be available for irrigation below, and fully utilize underground water; these are effective measures to improve low-yielding fields.

5. Dredge canals; practice intercropping of rice; use silt to dilute alkaline soil; improve soil; and change low-yielding fields to high-yielding fields. But in low-lying land without ditches, never plant rice.

6. Prevent water pollution. Factories in the irrigated areas often pour dirty water into ditches, without sewage treatment, making the situation of polluted water in the ditches more serious day after day. It is necessary to solemnly handle the polluted water from factories, and earnestly ensure that the water is up to standard for irrigation.

**Ma Gaoyun:** The hilly and gully area on the loess plateau in west China is the transition area between the agricultural zone in the east and the pastoral zone in the west. Whether this kind of area should be self-sufficient for grain, can be self-sufficient for grain, and how to be self-sufficient for grain has always been a controversial topic. In the past, we emphasized self-sufficiency of grain, "want to eat grain, cultivate wasteland." It did not solve the grain problem, but formed a vicious circle of "the poorer you are, the more you cultivate; the more you cultivate, the poorer you become." Nowadays, some people advocate that we do not have to emphasize self-sufficiency of grain, that we mainly develop pastoral and forestry undertakings, and that let the state provide grain. This idea seems reasonable, but actually involves many difficulties. I think that it is completely possible to attain self-sufficiency of grain in this kind of area. The method is to convert low yields from a vast area of land to high yields from a small area of land, and to cultivate trees and grasses in some farmland, to attain an overall development of agriculture, forestry, and animal husbandry. Practice proves that this is a scientific system of cultivation. Baicha Village of Pengyang County in Ningxia started planting trees and grasses in 1978 and reduced the area of farmland from 24,160 mu (per capita 6.4 mu) to 13,890 mu in 1988. Thereafter, grain output increased by almost 100 percent, attaining more than self-sufficiency of grain.

At the same time, sideline production related to forestry and animal husbandry also developed rapidly, enabling the village to initially cast off poverty. It has not only solved the problem of food and clothes, but also greatly improved the ecological environment. Ecological and

economic returns increased simultaneously, and the situation of vicious economic cycle came to an end. Yanchi County in Ningxia is a county typically engaging half in agriculture and half in animal husbandry. They paid serious attention to stable and high output from small tracts of farmland and small tracts of paddy field, to inundated field, to gully field, and to arid crops on raised field. At the same time, in the vast hilly areas and basins situated in the central and northern parts of the county, they expanded grass cultivation in the districts which are fertile and have deep layers of soil, and practiced intercropping of grass and grain, intercropping of grass and fodder, and intercropping of grass and oil crops. By doing so, they integrated high yields from small areas and more output from more varieties, satisfying peasants' and herdsmen's demand for grain on the one hand, and ensuring that the demand for feed and fodder by animal husbandry will be met. This system of cultivation is completely suited to the zone practicing both agriculture and animal husbandry on the loess plateau. Some people call this beneficial cycle, which integrates cultivation with poultry raising; agriculture with animal husbandry; and production of plants with production of animals—one which feeds animals with grass; uses animals to increase fertilizers; uses fertilizers to promote grain (grass); and uses grain and grass to enhance animal husbandry, as an "ecological system of agriculture on grassland." This is an ecological and economic model which requires a small amount of input, scores high returns, and is economical and reasonable. The practices of Pengyang and Yanchi prove that in the hilly and gully areas on the loess plateau in the northwest, it is totally possible to first develop forestry and grass, then animal husbandry, and attain self-sufficiency of grain.

**Cheng Guangren:** The construction of the "three west" [sanxi 0005 6007] areas is of great importance to the development of economy in the west. To develop economy in the "three west" areas, we should proceed from the strategic thinking of "intercropping of grain and grass, integration of agriculture and animal husbandry, grass cultivation for poultry raising, and development of animal husbandry," resolutely put animal husbandry in the same position of importance as cultivation, strengthen the sense of commodity animal husbandry, and rely on science and technology to improve the level of development of animal husbandry. We must study and form the best model of agricultural structure under different kinds of agricultural and ecological conditions as soon as possible, view grass cultivation as a trade, expand the area of farmland under grass, cultivate with care, increase per unit area yield, and strive to score a 50-percent increase in the output value of animal husbandry in the "three west" areas in the next three to five years. As for strategic points, first, continue to grasp intercropping of grain and grass; grasp grass cultivation on wasteland; pay attention to both grass and animals, integrate grass cultivation, animal husbandry, and processing; and support poor households which raise animals. Second, grasp construction of some bases for

raising animals. Third, strengthen work in mixing, processing, storing, and utilizing feeds and fodder. Fourth, carry out agricultural vocational training. The concrete measures are: 1) Adjust the fund-releasing structure, and on the premise of paying attention to construction of base and to eliminating poverty and achieving affluence, increase the proportion of funds for grass cultivation and animal husbandry. 2) Deepen system reform, improve the contracting system for science and technology, in particular, promote the double-track contracting system integrating the department responsible for administration of animal husbandry and the department responsible for science and technology for animal husbandry. 3) Allocate special funds for investment in veterinary service centers for animal husbandry. Build farms at the prefecture and county levels for breeding good poultry and animals, and provide poultry and animals according to the criteria for good breeds. Transform the current system of veterinary service for animal husbandry, unite organs for technology promotion and organs producing science and technology, and at the same time, display the fruits of experiment, supply breeds of poultry and animals, coordinate production and sale of fodder, and provide technological assistance for reproducing good breeds and for poultry and animal raising. 4) Strengthen work in standardizing animal husbandry, and attain standardization of grass cultivation and poultry raising. 5) Actively train local technicians specialized in agriculture.

**Li Yuanfang:** Qinghai Province is one of the important pastoral districts in our country, and animal husbandry occupies an important position in the economy of that province. The development of animal husbandry in Qinghai Province is an important aspect of economic development in the west, and it merits adequate attention. To further develop animal husbandry, at present, we face many problems, mainly: Poor material conditions and foundation; inadequate staying power; weak ability for resisting disaster; unstable development of production; backward science and technology; productive forces not fully developed; low production standard; deteriorating grassland; acute conflict between grass and animals; difficulty in increasing the number of animals; declining physique of animals; an imperfect system of operation, which hinders efforts to arouse eagerness for production among herdsman; and weak ability for production and service which is not beneficial to promotion of production. In order to solve these problems, I think that from now on we should do the following jobs: First, increase input, strengthen construction of material foundation, and earnestly solve the problem of food and shelter for animals. Except that the state should make every effort in increasing funds for building grasslands, the main responsibility goes to the masses of herdsman, who on the premise of developing production should continually increase the input of materials and manpower for grassland building, gradually attain the "four complete sets" of production and life in the pastoral districts, and form modernized pastoral production bases which are stable and highly efficient. Second,

strengthen scientific and technological research on animal husbandry, and transfer the fruits of research to production as soon as possible. At present, attention should mainly be paid to improvement and breeding of animals, to scientific ways of raising animals and poultry, to prevention of animal diseases, to cultivation of grass as fodder, to processing fodder and feeds, to manufacture and use of machines for animal husbandry, to modernized operations and management, and to work in processing and transporting products of animal husbandry. Third, further improve the business system of animal husbandry. Under the general ideological guidance aimed at stabilizing policy and deepening the reform, guide herdsman to try various styles of united operation; further implement grassland contracting responsibility system; stipulate clearly the rights and obligations for using and managing facilities; strengthen and improve management over grassroots organizations and their services; through rectifying collective funds, collecting debts, collecting depreciation charge of animals, and allocating a certain amount of accumulation for use each year, allocate funds for launching promotion and construction and for establishing service organs, to improve the production standard of animal husbandry. Fourth, consider local conditions, and develop various kinds of operation. At the same time when we uphold animal husbandry as the mainstay, we develop in a planned way gathering business, mining industry, cultivation, processing industry, and service industry etc., and allow some herdsman to engage in these businesses voluntarily and consciously, so as to enhance prosperity in the whole pastoral district.

## FINANCE, BANKING

### Growth Seen in Modern Securities Market *HK2408143990 Beijing CEI Database in English 1017 GMT 24 Aug 90*

[Text] Beijing (CEI)—The Chinese securities market, which has grown with the country's urban economic reforms starting in 1984, has now taken shape, and its issuing and circulation systems are on their way toward standardization and legalisation.

According to statistics, 144.5 billion yuan of securities have so far been issued in China, including 91 billion yuan of treasury bonds, 20 billion yuan of financial bonds, 14 billion yuan of debentures issued by state-run corporates, and 19.5 billion yuan of debentures issued by local enterprises.

Securities, as a means for raising funds, are now widely accepted across China.

China issues a huge amount of treasury bonds annually to keep the balance of payment and this has stimulated the growth of the securities market.

China issued 120 billion yuan of securities between 1986 and 1989, and analysts forecast an annual 40 billion yuan during the Eighth Five-Year Plan period (1991-1995).

Treasury bonds were the sole securities issued in China before 1985, but now more than 10 kinds of securities including financial bonds, construction bonds and corporate debentures, have been issued.

Currently, 55 percent of the securities are marketable. This will facilitate the development of the securities exchange market, say economists.

China's securities circulation market started in Shanghai, and it can be seen in most parts of the country. The most active are those in Shanghai, Shenyang, Beijing, Guangzhou, Shenzhen, Wuhan and Chongqing.

In Shanghai alone, the securities transaction volume reached 800 million yuan in 1989, accounting for 50 percent of the national total, and in the first half of this year, the figure reached 1.28 billion yuan, 5.5 times more than in the same period of 1989.

By the end of 1989, the country's securities transaction volume had exceeded 5 billion yuan, and more than 20 were listed.

To improve administration over the security market, Chinese authorities, including the State Council, are preparing national regulations on issuance of bonds and stocks.

CEI learned that the state started an official plan for the issuance of domestic bonds in 1990.

Meanwhile, related departments are considering establishing a national securities trading center. Specialized stock exchange centers are now being formed in Shanghai and Shenzhen.

In the Shenzhen Special Economic Zone, the stock market has assumed a certain scale. There are now 83 stock holding companies in the zone and the stock shares issued hit 400 million yuan, of which 230 million yuan have been listed.

### Jan-Jul Financial Status Reported

*HK2008132790 Beijing CEI Database in English  
20 Aug 90*

[Text] Beijing (CEI)—The State Statistical Bureau said that, in the first seven months of this year, China's domestic financial revenue and expenditure increased by 11.6 percent and 16.4 percent over the same period of last year respectively. However, the bureau declined to give concrete figures.

According to the bureau, the unstable production in state-owned enterprises, the mainstay of the country's industry, and the poor economic returns are the major factors affecting revenue.

Latest statistics published by the bureau show that, by the end of last July, savings deposits of urban residents totalled 641.5 billion yuan, 126.8 billion yuan more than at the beginning of this year and 47.5 billion yuan more than the same 1989 period.

### Bank Loans Used To Strengthen Economy

*HK3008012190 Beijing CHINA DAILY in English  
30 Aug 90 p 2*

[By staff reporter Wang Xiangwei]

[Text] China has greatly relaxed its monetary controls by pumping 74.2 billion yuan (15.7 billion) in bank loans into the economy with an emphasis on infrastructure construction in the first seven months of this year, according to the latest government statistics released yesterday.

As a result, the social demand, which has been depressed for one and half years, started to recover with a strong growth in investment on fixed assets.

However, the statistics indicated that the economic efficiency continues on a downward trend, evidenced by sharp declines in labour productivity and enterprises' profits and taxes in the first seven months of this year.

"As a result, it's a big problem we must face and solve—how to take effective and concrete measures to increase economic measures in line with further economic reforms," commented one economist.

The statistics were jointly released by the State Statistical Bureau, the State Planning Commission, Ministry of Finance, and the People's Bank of China.

Statistics revealed that investment in fixed assets which has recovered slowly in the first half of this year bounced back by 16.6 percent in July, the quickest monthly rise since the beginning of this year.

The rise, economists said, stemmed from the government's relaxation of the monetary controls and the advent of peak construction season.

As a result, the investment in fixed assets in the first seven months of this year advanced at a hefty clip of 5.4 percent over the same period last year, following a 0.1 percent rise in the first quarter of this year.

During this period, the energy industry got a 23.8 percent rise in investment in fixed assets, the machinery and electronics industries registered a 42.3 percent rise in investment in fixed assets, and investment in transportation and telecommunications rose 11.8 percent.

Meanwhile, employees' wages rose 9.7 percent in the first seven months of this year to 150.2 billion yuan (\$31.9 billion) after a 9.5 percent rise in the first half of this year.

### Industrial Bank Fine-Tunes Loan Policies

OW2008223490 Beijing XINHUA Domestic Service  
in Chinese 0842 GMT 9 Aug 90

[By reporters Ye Guiguang (0673 2710 0342) and Zhou Jinhuan (0719 6855 2970)]

[Text] Shenyang, 9 Aug (XINHUA)—During the first half of this year, the Industrial and Commercial Bank of China, in adherence with the centrally set financial policies of tight money and credit with flexible adjustment, adopted the strategy of giving loan priority to three main fields in order to promote two-pronged development. Newly extended loans over the last six months amounted to 36.2 billion yuan, accounting for approximately 60 percent of new loans extended by all banks in China during that period. This strategy has greatly spurred production, smoothed commodity circulation, and contributed to the recovery of national economy.

During the first half of this year, the Industrial and Commercial Bank extended loans to industries to help stimulate production, as well as to wholesale trades and material supply and marketing enterprises in order to boost industrial development by supporting commercial activities. While prioritizing support to "double-guarantee enterprises," large- and medium-sized key enterprises, state-run wholesale businesses, and essential material supply and marketing enterprises, the bank has also appropriately financed the small- and medium-sized enterprises with good economic returns and which produce popular commodities and daily necessities. Statistics show that the amount of increased loans to guaranteed key enterprises made up nearly 70 percent of the total new loans extended by the bank during the first half of this year.

As disclosed by a national meeting of branch presidents of the Industrial and Commercial Bank held recently in Xincheng, during the first half of this year, deposits from Liaoning Province increased 52.7 billion yuan, of which 35.8 billion yuan was savings deposits. Due to a bigger margin of deposit increase, total deposits to the bank outstripped its loans by 16.5 billion yuan. From January through June this year, with the support of local governments, the bank successfully broke the "debt chains" among enterprises at provincial, interprovincial and national levels. Cleared debts were valued at 56.8 billion yuan, representing 72 percent of the total amount of "debt chains" settled nationwide. In the foreign exchange sector, through the end of June, the bank maintained a credit balance of \$1.6 billion, an increase of 20 percent over the beginning of the year. Loan balances in various foreign exchanges stood at \$913 million, an increase of 9.5 percent.

Huang Yujun, vice president of the Industrial and Commercial Bank said: From the financial point of view, some current problems warrant serious attention. First is the decline of both economic efficiency and the return of bank loans. Second is the tie-up of most of the bank loans

in stockpiled finished products and losses suffered by enterprises. Third is that funds are being massively loaned while remaining idle in large amounts. There are great possibilities for using enterprise funds. Therefore, the Industrial and Commercial Bank will continue to practice a tight policy designed to "make flexible use of the capital while enhancing returns." To increase funding, the bank is striving for a 70- billion yuan increase in deposits this year, of which savings deposits and enterprises' deposits will account for 50 billion yuan and 20 billion yuan respectively. Priority has to be set in determining where the loans should go. Efforts should be made to make flexible use of the idle fund and minimize loan risks. Loans should be extended to well-managed enterprises facing temporary setbacks in marketing their products in order to help them overcome difficulties. Enterprises whose products have gone from saleable to sluggish due to market changes should be helped to readjust their product mix and push up sales. Enterprises on which loan restrictions are imposed under industrial and credit policies should be advised to undergo mergers and transformations. No loans will be extended to enterprises that stockpile their products. Loans should be terminated for those enterprises that continue production despite constant losses. Special attention should be paid to managing loans to enterprises that reports false profits but are in fact suffering losses.

### Shanghai Limits Foreign Exchange Price Range

OW2409223890 Shanghai City Service in Mandarin  
1000 GMT 24 Sep 90

[Text] (Zhou Zhishi), vice president of the Shanghai Municipal People's Bank, announced today that Shanghai is carrying out the Foreign Exchange Readjustment Center's regulations on management and trade. He said: The trade regulations stipulate that the foreign exchange rates for a transaction concluded on the spot should be adjusted only on the basis of the opening price, thus setting a limit to the scope of adjustment to prevent violent fluctuations of the price for transactions. This new way of concluding a transaction enables both the buyer and the seller to regulate the cost within their ability at any time and on any occasion.

(Zhou Zhishi) said: Since the Shanghai Foreign Exchange Readjustment Center opened more than 2 years ago, the volume of foreign exchange transactions concluded has reached as high as \$2.7 billion, while funds in Renminbi accommodated has reached 7 billion yuan, ranking first among all provinces and municipalities in the country.

At present, the daily volume of transactions in foreign exchange in Shanghai is to the tune of \$5 million to \$6 million. There has been no phenomenon of obvious soaring or slumping.

### Shanghai Plans More Bond Market Centers

OW2109091390 Beijing XINHUA in English  
0757 GMT 21 Sep 90

[Text] Beijing, September 21 (XINHUA)—Shanghai, China's leading industrial center, plans to set up more bonds market centers while strengthening management of the existing ones to collect funds from the society and attract foreign investment, the PEOPLE'S DAILY reported today.

The city has nine companies undertaking business on negotiable securities.

Altogether seven kinds of share certificates and 22 types of bonds worth four billion yuan have been issued in Shanghai since 1986 when the bonds market opened.

The volume of transactions in the first six months of this year totalled 1.28 billion yuan in comparison with 40 million yuan in the 1986-87 period.

It is learned that more than one million people have involved in the market business.

## MINERAL RESOURCES

### Shandong Increases Gold Mining Production

SK2409045990 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 22 Sep 90

[Text] By carrying out the spirit of independence, self-reliance, and doing pioneering work, the gold mining industrial front in the province has made the province's gold industry take on a new direction. Thus far, the number of gold production mines in the province has grown to 68 as opposed to seven in 1975. Over the past 10 years, eight large and medium-sized gold mines, including (Jiaojia), (Xincheng), and (Sanjindao) mines, have been built and put into production. At present, the daily mining and dressing capacity of gold mines throughout the province is 7.6 times that of 1975. Meanwhile, the province has basically given rise to a gold industrial system with mining and dressing predominant, under which various specialized technologies are well coordinated, and complete at all levels. It is expected that in 1990 the provincial gold output will increase by about 15 percent over 1989, five times the 1975 figure. The province's gold output has always accounted for more than one-fourth of the country's total, ranking first among the gold mines throughout the country.

## INDUSTRY

### Jan-Jun Coastal Industrial, Commercial Indexes

HK1809121390 Beijing CEI Database in English  
0925 GMT 18 Sep 90

[Text] Beijing (CEI)—Following is a list of major industrial and commercial indexes of China's 14 coastal open

cities in the first half of 1990, released by the State Statistical Bureau.

		Unit: 10,000 rmb yuan	
Index (output value/sales value)	Jan.-Jun. 1990	Jan.-Jun. 1989	Change (percent)
Heavy industry	8,811,815		
Light industry	10,182,110		
Foreign-funded enterprises	502,956		
Export product	2,931,706		
Fixed assets investment including:	1,320,708	1,415,953	-6.7
Capital con- struction	879,079	963,349	-8.7
Renovation and transfor- mation	391,207	433,494	-9.8
Total retail sales	5,945,075	6,155,360	-3.4

### Light Industrial Product Imports for August

HK2809112790 Beijing CEI Database in English  
28 Sep 90

[Text] Beijing (CEI)—Following is a list showing China's import volume of light industrial products in August 1990, released by the General Administration of Customs:

Item	Unit	Aug. 1990	Aug. 1989
Cigarette	1,000 stk	369,705	553,757
Log	c.m.	432,596	375,259
Pulp	ton	40,261	43,245
Crude drugs	ton	290	632
Paper and paperboard	ton	93,783	72,482
Newsprint	ton	41	21,496
Cement	ton	64,396	82,099
Household fridge	set	6,576	30,172
Non- household fridge	set	438	1,657
Air- conditioner	set	5,384	6,334
Copying machine	set	697	660
TV sets	set	59,983	122,729
Color	set	9,811	20,571
Video recorders	set	5,867	381
Audio recorders	set	8,141	747,475



Item	Unit	Aug. 1990	Aug. 1989
Washing machine	set	152	201
Household washer	set	67	108
Camera	set	20,163	12,593
Cameras for specific use	unit	14	8
General cameras	unit	20,149	12,585
Materials for processing, assembling (excluding those processed on contracts)	10,000 USD	81,770	66,216

### Import of Textiles in August Reported

HK2809112390 Beijing CEI Database in English  
28 Sep 90

[Text] Beijing (Cei)—Following is a list showing China's import volume of textiles in August 1990, released by the General Administration of Customs:

Item	Unit	Aug 1990	Aug 1989
Synthetic fibres for spinning	ton	34,234	33,775
Polyamide fibres	ton	15,367	13,012
Polyester fibres	ton	18,238	19,949
Syn fibres yarn	ton	10,449	9,981
Polyamide fibres	ton	1,505	1,247
Polyester fibres	ton	4,574	5,527
Regenerated fibres for spinning	ton	9,248	8,518
Regenerated yarn fibres	ton	128	1,032
Rayon	ton	50	967
Wool	ton	2,118	5,685

### Gansu Industrial Production Picks Up in August

HK2409032090 Lanzhou Gansu Provincial Service  
in Mandarin 2300 GMT 22 Sep 90

[Text] Data from the provincial statistics bureau shows that industrial production picked up a bit in August compared with the preceding month, with total monthly industrial output value reaching 1.39 billion yuan, representing a 6.7 percent increase over July and a 2.6 percent increase over the corresponding period of last year.

The main reason behind such a pick-up is that central enterprises witnessed a relatively rapid growth, with their output value registering a net increase of 60 million yuan over the preceding month, which accounted for 68.2 percent of the total provincial monthly industrial output value increase; some enterprises had completed their equipment examination and repair, raised production level, strengthened production organization and management, and their product marketing work. From January to August, the accumulative total industrial output value reached 10.926 billion yuan, representing a 1.8 percent increase over the corresponding period of last year and fulfilling 64.6 percent of the annual plan.

Provincial industrial production has not yet extricated itself from difficulties. The state-run industrial enterprises and the big and medium-sized enterprises are still operating in a tough situation. Production is bound to become more difficult in the remaining months of this year.

### Inner Mongolian Steel Works Increases Production

OW1809130490 Beijing XINHUA in English  
1118 GMT 18 Sep 90

[Text] Hohhot, September 18 (XINHUA)—The Baotou Iron and Steel and Rare Earth Corporation is now in its seventh year of operation.

The total output of iron and steel last year reached 2.23 million tons, ranking fifth among China's 10 big iron and steel enterprises.

Statistics from the corporation, located in the Inner Mongolia Autonomous Region's Baotou City, show that from January to August this year the total output value reached 850.29 million yuan, an increase of 9.34 percent compared with the same period of last year. Profits and taxes handed to the state totalled 313.85 million yuan, 13.8 percent more.

From 1983 to 1989, the average annual growth rate of the corporation's output value was 13.52 percent, and profits and taxes came to 27.72 percent.

General Manager Zhang Guozhong said that the corporation has successfully adjusted its production to the demands of the market, so they have no problem of overstocking.

The corporation uses columbite as its raw material. This mineral is said to make steel more pliable and stronger, and therefore more competitive on the market.

The manager said that the corporation pays great attention to the improvement of technology, and 10 projects of technical research have already been completed this year.

Meanwhile, the contract system and an extensive network of workers' benefits encourage the employees to bring their potential into full play.

### **Textiles Minister Tours Tangshan in Hebei**

*SK2509043090 Shijiazhuang Hebei Provincial Service in Mandarin 2200 GMT 29 Aug 90*

[Text] During her inspection tour in Tangshan from 27 to 29 August, Wu Wenying, minister of textile industry, fully affirmed Tangshan City's policy and method of considering textile producing as an industry to be developed on a priority basis. Accompanied by Chen Liyou, secretary of the Tangshan City party committee and mayor of the city, Wu Wenying visited the Huaxing Textile Mill, the Tangshan City Printing and Dyeing Mill, and four other plants to inspect and give guidance to their work. She also inspected the Tangshan (Nanpu) chemical industrial zone, which was under planning.

Wu Wenying fully affirmed Tangshan City's guiding policy and method of developing the textile industry on a priority basis. She urged textile enterprises to subject themselves to the guidance of the market, enhance their sense of the commodity economy, orient their work to the needs of both domestic and foreign markets, and strive to produce their own brand-name and highly competitive products of high quality through intensive processing.

In speaking on Tangshan City's chemical fiber project, Wu Wenying said: The Ministry of Textile Industry has the same idea as Tangshan City in Hebei. The chemical industrial zone is a better place to locate the plant, because better external conditions will be provided. We should exert concerted efforts to promote this project.

### **Ship Construction Efficiency Highest in Years**

*HK2509043090 Beijing CHINA DAILY in English 25 Sep 90 p 2*

[Text] China's shipbuilders completed 75 vessels totalling 334,000 dwt (dead weight tons) during the first eight months of this year, most of which were for overseas clients.

The figures were not a record high but the efficiency shown in the vessel construction was the highest of recent years, according to Jiang Minda, a spokesman for the China State Shipbuilding Corporation. Jiang attributed the efficiency to a programme launched this year aimed at shortening the ship construction cycle.

A showpiece of the achievements in the programme is a 65,000-dwt freighter, the largest vessel ever built for American clients and completed around the end of August, four months ahead of contract time, Jiang said.

Another showpiece is a 35,000-dwt freighter which was also completed then, 11 months ahead of schedule.

Jiang said a new design, which was a recent invention featuring shallow draught and a wider-than-normal shell, was adopted in the 35,000-dwt freighter.

This design is suitable for navigation in the country's rivers and ports where waters are shallow. With its wide shell, its dwt is not affected by the shallow draught, experts said.

The design had already been successfully used in the construction of four other freighters of the same dwt.

In these months, orders for nine vessels totalling 410,000 dwt were received from overseas clients.

The dwt figure surpassed by 48 percent the others that were received from overseas in all of last year and was the highest of any similar period in recent years, Jiang said.

The orders came from clients in Norway, West Germany, Belgium and Hong Kong and vessels on the orders include oil and oil product carriers.

Most of the orders came before the Gulf crisis broke out, and experts said Chinese shipbuilders, like those in other ship manufacturing nations, will pay close attention to the situation in the Gulf to see how the crisis affects the world ship market.

By now, the sector still has orders for vessels totalling some 2.3 million dwt, more than half of which are for overseas clients, Jiang said.

He said orders from domestic clients in this period were for 30 vessels totalling 370,000 dwt.

These months also saw some 190 vessels repaired for overseas customers, Jiang said.

The repairing work brought in foreign exchange earnings of \$32 million, which were an increase of 25 percent over the same period last year.

In addition, some 410 vessels were repaired for domestic customers in these eight months, Jiang said.

Total production value created by the sector in these months stands at 3.48 billion yuan (\$730 million), a 15 percent rise over the corresponding months of last year.

Of that, 2.84 billion yuan (\$600 million) came from construction of civilian vessels and production of commercial goods, including 1.1 billion yuan (\$230 million) from manufacturing of ships for overseas clients, Jiang said.

## CONSTRUCTION

### Shipbuilders Win Overseas Construction Contracts

OW1409145790 Beijing XINHUA in English  
1419 GMT 14 Sep 90

[Text] Beijing, September 14 (XINHUA)—Chinese shipbuilders won contracts to build nine vessels for foreign shipowners in the first eight months of this year, a spokesman for the China State Shipbuilding Corporation (CSSC) announced here today.

Totalling 410,000 dwt, the ships are mainly tankers and roll-on-roll-off freighters for Norway, Federal Germany, Belgium and Hong Kong.

The figure means that the contracted tonnage of new vessels during the January-August period of this year was 48 percent higher than that of the whole of 1989, the spokesman said.

Since the beginning of this year, he said, Chinese shipyards have repaired 188 vessels for over 20 countries and regions.

He added that the yards also contracted to build 32 vessels for domestic shipping companies in the first eight months of this year.

Now Chinese shipbuilders have shipbuilding contracts totalling 2.34 million dwt in hand, worth 10.8 billion yuan, the spokesman said. This is an all-time record, he added.

## FOREIGN TRADE, INVESTMENT

### Shanghai Seeks To Expand Role of Trade in Economy

90CE0497A Shanghai JIEFANG RIBAO in Chinese  
29 Aug 90 p 5

[Article by Wan Cengwei (8001 2582 3555): "Opening Up To Be Primary Concern, Trade To Be Means To Raise the City's Prosperity—A New Phase in Shanghai's Economic Development"]

[Text] Shanghai's economy, which has undergone very tortuous developments in the 1980's, is just now, in the rigorous economic climate and configuration of the 1990's, faced with the need to reconsider and redetermine the pattern of its development. Should reform and opening up, as in the past, sluggishly follow in its advance the coastal regions with the same pose and speed, or should Shanghai with show the daring ambition to become first in the world and ahead of all others in the whole country. Should economic development follow the "industry above all" guiding ideology that prevailed since the founding of the PRC, or should it adapt to the needs of the time and its particular circumstances and realistically place trade into first line. In all these respect, I am afraid, we have arrived at a juncture

where it is absolutely necessary for us to devote thorough study to these questions. The economic problems of Shanghai are manifold indeed, and to resolve them case by case as they come up would not be helpful toward bringing about a fundamental turn in the passive situation of Shanghai's development. Only by truly accepting opening up as the primary direction of the reform and a developmental pattern in which trade is the driving force, which means only by accepting "Opening Up To Be Primary Concern and Trade To Be Means for the City's Prosperity" as the new choice for its economic development will Shanghai be able to advance on a new road of a benign cycle and of a most vigorous development.

### Opening Up Is the Foundation for the Development of the Port of Shanghai

In all its 6,340 square km, Shanghai has almost no other material resources than water and its soil. However, its location in the center of China's north-south shoreline and also advantageously near where the Changjiang River flows into the ocean, gives Shanghai many opportunities that are the envy of other places. However, opportunities merely provide possibilities for economic development, to transform them into reality still depends on the precondition of having an organizational system that is opened up to the outside world (including passive opening-up).

Early in history, under the Tang, Song, and Ming Dynasties, Shanghai had been a center for bartering grain, cotton products, and products of the handicraft industry. Later, under the Qing Dynasty, Shanghai became one of the country's large trading ports and a grain distribution center, referred to as "A metropolis of the Southeast with easy access to River and Ocean." In 1840, after the Opium War, Shanghai was opened as a "trading port," compelled to give up sovereign rights, and turned into the major thoroughfare for the entry of "Western goods" to the cities and villages of China's interior and for the assembly and export of mineral products from China's interior. This is how the city developed its port. In the subsequent 100 years, Shanghai developed in all special lines, such as trade, traffic, communications, and finance, which mutually stimulated each other, and continuously increased as time went on, until it brought about the rise of a modern processing industry, which rapidly developed. By 1948, Shanghai had developed trade and economic relations with almost 100 countries and territories and with over 300 ports, having become a famous international harbor and the most prosperous and most versatile economic center of the Far East, also the country's largest industrial and commercial base and base of modern science and technology.

### Trade Is the Source for Shanghai's Rising Prosperity

The development of Shanghai's port and the buildup of the city had its origin above all in trade. Foreign aggressors utilized whatever profits they cruelly squeezed out of the Chinese people to engage in Shanghai in large

constructions, building up the city's administrative institutions, erecting and managing huge mansions, building up all kinds of factories, and in establishing many banks, all with the purpose of using trade as the intermediary to siphon off an ever increasing amount of material wealth from China. As far as Shanghai was concerned, due to the effects produced by trade, every field of the city's economy began to develop rapidly, the secondary and tertiary industries flourished, and city administration continuously expanded, so that Shanghai finally became a world-famous metropolis of the East. What this course of events can reveal to us is: In the process of economic development, especially in the process of a city's economic development, trade has the effect of a powerful precursor. The motive force of trade not only injects vitality into productive and nonproductive industrial development, but will also play a role in enhancing city building and city development.

During the 40 years since the foundation of the PRC, Shanghai's economic development was oriented toward promoting vigorous industrial development while trade was allowed to retrogress. Even though it was an economy under rationing with a high degree of planning during the first 30 years—Shanghai was China's largest base for the production of industrial goods and source from which technologies were disseminated, it had its raw materials supplied, its products had their markets, and profits were guaranteed, in addition to which a relatively advanced and perfect city infrastructure had been left over from old Shanghai—Shanghai had all along shown itself as a well developed industrial base of low input, high output, and quick turnover. All this concealed the fact that its economic operations ran counter to its developmental law, and concealed the many contradictions this created. When entering the 1980's with all the reform and opening up—not to mention the fact that Shanghai lagged far behind Hong Kong and Singapore, cities which originally had amounted to nothing—Shanghai constantly declined, even in its domestic standing. Shanghai, which had for several decades followed the road of primarily relying on its industrial development, encountered, particularly in the industrial area, one trouble after the other, crises in the area of raw material supplies, in the sales of its products, and in the economic results from its operations. In the original scope of its operations and original advantages, it had already been overtaken, or was about to be overtaken, by provinces and municipalities that had entered the field much later. With regard to city building and urban development, and items of the infrastructure, such as water and power supply, traffic, roads, housing, drainage, greening, etc., the situation has become one where facilities are no more adequate to meet the needs of the city. Of its advantages in the hard investment environment there is now little left, if we compare Shanghai with other large cities. Obviously, these 40 years of development have further revealed to us: It would only be possible under the organizational pattern of a highly intensified planned economy that Shanghai could abandon the primary development of

trade and tertiary industries and fight its way ahead in the isolation of an industrial development. If this realization is negated, it is impossible to avoid the fact that Shanghai ends up in the throes of a dilemma as it is now experiencing.

#### **Opening Up To Be Primary Concern, Trade To Be Means To Raise the City's Prosperity—Reasserting Shanghai's Fundamental Advantages**

In the overall national economic state of expanding opening up, deepening the reform, and accelerating the process of industrialization, what role should Shanghai's economy play, so as to be of benefit to the nation and to be beneficial for its own development?

Singapore and Hong Kong are as poor as Shanghai in material resources, and they are not even able, like Shanghai, to gain benefits from their hinterland. When it comes to industrial, scientific, and technological foundation, they are even worse off than Shanghai. But when we compare economic achievements, total value of industrial production, national income, import and export trade volume, and fiscal income, they are by far superior to Shanghai, and they have also achieved the appearance of modern cities by present-day world standards. The fundamental cause for this miraculous change in the said two cities, a change that has come about in the short time of 20-odd years, we may say, is their proper utilization of the advantages of geographical location, and must also be seen in their exerting themselves to the utmost in opening up to the outside world and in trade operations.

With the historical experiences and the example of similar cities at home and abroad with which to compare, Shanghai, undoubtedly, must return to its basics and clear up the sources of its problems. It must resolutely pursue a development along the line of "opening up to be primary concern and trade to be means of raising the city's prosperity," and must reassert the unique fundamental advantages of its geographical location.

"Opening up to be primary concern and trade to be means of raising the city's prosperity" must be carried out on the original foundations of expanded exports, absorption of foreign capital, importation of foreign advanced technologies, development of foreign economic cooperation, and establishment of economic development zones, and it must entail a further broadening of the area of opening up and a deepening of the industrial development. Planning the spatial dimensions of opening up must in principle cover all land within the municipal boundaries and also the different administrative levels, with emphasis on particular points. Such action must be firmly founded on the opening up and development of Pudong, but must also give impetus to reclaiming and transforming the land of Puxi district, as it must also promote a vigorous economic upswing for the entire city. The development of Pudong is so far the largest of China's "opening up" projects and an engineering project that will last into the next century, its

objective being to build up a new modern city with international standards. The project is undoubtedly a development of the highest order and will take a long time in execution. However, reclaiming and transforming of land in the Puxi district is an extremely urgent necessity, and the vigorous economic upswing for the entire city is also something included in the planned strategic objectives for the end of this century. A method that would take both objectives into consideration would be to broaden the area to be opened up, to use to advantage the three or five-year start that Pudong had in building up its infrastructure, to apply to Puxi some of the favorable policies, to adopt there the land-house replacement method, and to induce foreign businessmen to invest in and redevelop the more than 10 square km of golden district of Puxi, the downtown center, and Jiangwan airport. At the same time, one should raise the degree of opening up in some border counties, such as Jiading and Songjiang, and have certain plan demands, which are unsuitable for the new economic zone of Pudong and for the downtown center, transferred to take roots in the suburban areas.

Expanding the degree of industrial opening up must be planned in integration with the strategy of bringing prosperity to the entire city. We must focus on the backwardness of some industries having a service character, such as banking, foreign trade, commerce, the real estate industry, the news and information industry, and on the condition in some industries with excessive investments and low technological intensity, and also on the serious insufficiency of the infrastructure. We must energetically develop commodity trade, emphasize investment trade, and exert efforts in the development of financial trade. We must alleviate and bring together, on the premise of an overall trade development, the differences between the tertiary industry and industrial production and the contradictions between economic development and city development.

Energetic development of commodity trade. We must firmly base on the advantages of Shanghai harbor and its function as an excellent assembly and disseminating center, attract to Pudong international commercial organizations, domestic organizations pursuing foreign trade, and commercial wholesale businesses to engage in trade. We must evoke interest that would draw goods from all over the world and from all over China to Pudong to become subjects of commercial transactions, turning Pudong into a commercial and trading center which will gladly handle all things near and far and where thousands of merchants will congregate.

Emphasizing the development of investment trade. We must base ourselves firmly on the land resources of Shanghai and tap the industrial potential of Shanghai. Development and buildup of several hundred square km of golden land, as well as transformation and adjustment of hundreds of factories and enterprises is impossible when depending only on Shanghai's accumulations. By relying only on widespread opening up and by drawing support from international and domestic economic

strength, utilizing such investment and trade measures as renting large lots of land, trading in real estate, trading in industrial property, etc., can a change be brought about in Shanghai's investment constraints by its many historical debts and by the insufficiency of its own accumulations, can there be achieved an acceleration of the pace of development and buildup throughout the entire city and of a large-scale transformation and adjustment of its industry.

We must exert great effort in developing financial trade. We must have our activities firmly founded on the special characteristics of modern international industrial development in which to take the lead, and coordinated with Shanghai's future commodity trade and with its future upswing in investment trade. We must actively attract foreign-financed banks and financial organizations, gradually broaden the scope of business operations, further normalize methods of mortgaging of property and of issuing bonds and shares, promote formation of security markets on an even larger scale and better conforming with international practices. We must enable Shanghai's entire trade-oriented economic development to merge into a highly efficient circulation and turn-round cycle of domestic and foreign capital.

#### **Foreign Trade Development, Reform Discussed**

90CE0370A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 6, 11 Jun 90  
pp 27-31

[Article by Yuan Wenqi (5913 2429 4388) of the Chinese Academy of Social Sciences' Institute of Finance, Commerce, and Commodities Economics: "China's Foreign Trade Development and General Concepts and Tentative Plans of Reform in the 1990's"]

[Text] China's foreign trade development and reform are two organic components that interact with each other to make up the whole. Foreign trade development needs the constant and thorough restructuring of the foreign trade system while the ultimate goal of the restructuring of the foreign trade system is to promote the smooth development of foreign trade undertakings.

#### **I. General Concepts and Tentative Plans of China's Foreign Trade Development in the 1990's**

As pointed out by the Fifth Plenary Session of the 13th Party Central Committee, "We must insist on starting out with China's basic conditions at all times, firmly uphold the guiding ideology of sustained, steady, and smooth development, resolutely curb the single-minded pursuit of an excess rate of growth, and put increasing economic efficiency at the top of the economic work agenda from the start to finish." This should be the guiding ideology of the overall concept of China's foreign trade development in the 1990's and well into the future. What kind of theory and strategy should we develop, and what development pattern should we follow, so that we can put increasing economic efficiency first in China's foreign trade development, help China export more and

earn more foreign exchange, maximize our efficiency in utilizing our hard-earned foreign exchange on imports, and speed up China's economic development in the 1990's? These are important theoretical and practical questions which require in-depth studies and discussions.

A. The central problem in China's foreign trade development in recent years is the lack of macroeconomic efficiency.

Since China began implementing the policy of opening up to the outside world, we have had great success in the area of foreign trade. Foreign trade volume has increased significantly. Statistics show that the 1988 export volume was 3.2 times more than 1978's, increasing at an average rate of 15.2 percent a year. However, macroeconomic efficiency in exporting tends to fluctuate over the years. If we look at our export macroeconomic efficiency, the 1978-1988 period can actually be divided into two sub-periods. From 1978 to 1981, the export value index was rising faster than the export volume index. Comparing 1981 with 1978, the former has risen almost 114 percent and the latter has risen 54 percent. This demonstrates that China's export macroeconomic efficiency was fairly high in that period. From 1981 to 1988, however, overall efficiency was below expectations. This is demonstrated by the surge in the export volume index without any significant increase in the export value index. Comparing 1988 with 1981, the export volume has increased 141 percent while export value has increased only 94.6 percent; the export price index has fallen by 11 percent.<sup>1</sup>

The decline in export macroeconomic efficiency is due mainly to the following reasons: 1) We have failed to straighten out or smooth out the relationship between the speed of export development and export macroeconomic efficiency. Often when we emphasize increasing the volume of export, we overlook the increase in foreign exchange earned per unit of export. Facts proved that the increase in export volume and the increase in foreign exchange earned per unit of export good is not necessarily directly proportional. Sometimes if the export volume increases too fast, earnings per unit of export goods may decrease. This is because the international market's capacity for any commodity is elastic only to an extent. If the export volume of a certain commodity exceeds the international market's capacity, its price will automatically drop. This is exactly what happened to China's exports such as oolong tea, Chinese herbal medicine, cotton yarn, tungsten ore, and cultured pearls. This demonstrates that extensive export management—"success through volume"—should not be the direction of China's export development. 2) China's export product-mix is less than optimal; product quality is poor and goods are of low grade. China's export product-mix has always been less than optimal. In particular, the products are not of high quality nor high grade and lack technical content. As a result, the export goods have low added-value, which keeps the foreign exchange earnings per unit of export fairly low. Take China's silk export for

example. In 1986, China exported 296,000 tons of silkworm cocoon products, mostly in the form of filature silk and plain silk fabric and other primary products which accounted for 67 percent of the year's silk and silk fabric exports. They earned \$1.13 billion in foreign exchange, averaging \$38.20 million per 10,000 tons of silkworm cocoon products, at an exchange earnings ratio of 1:0.382. During the same period, South Korea exported 20,000 tons of silkworm cocoon products, most of which were processed, high added-value, average to high-grade, printed and dyed silk fabric and silk garments. They earned as much as \$250 million, averaging \$125 million per 10,000 tons, at an exchange earnings ratio of 1:1.25, far above China's ratio. 3) We have lost control over macroeconomic management: China's restructuring of the foreign trade system to expand the export management rights of localities, departments, and enterprises and mobilize their export enthusiasm is no doubt correct. But the loss of control over macroeconomic management and the over-decentralization of export operations have led to a flood of export companies of all sorts. As a result, everybody is bullish about exporting, and we compete against ourselves; goods are exported "outside of proper channels," and we drain our own profits and diminish our export macroeconomic efficiency. 4) Our demand for import is too inelastic and export is facing too much pressure, which prevent us from generating a tolerant environment for increasing macroeconomic efficiency, making it difficult for our export trade to be very efficient. In recent years, unnecessary and reckless importing and redundant introduction of foreign projects have created tremendous pressure on our exports. In particular, excess consumption, massive importing of luxury, durable consumer goods, such as luxury cars, motorcycles, television sets, refrigerators, and VCRs; even large amounts of imported cigarettes, liquor, cosmetics, beverages, fruit, and so on have squandered our already scarce foreign exchange and have artificially created an excess demand for imports.

B. Intensification of foreign trade operations is China's overall foreign trade development concept in the 1990's and is a sure way to expand export and make our foreign trade economically more efficient.

How do we expand China's foreign trade and increase macroeconomic efficiency at the same time? According to China's economic development strategy, we should gradually take foreign trade, an important component of the national economy, away from extensive management and put it on a primarily intensive-management track. Intensification of foreign trade is two-pronged: Intensive exporting means taking effective measures to earn more, or the maximum amount of, foreign exchange with less, or the minimum amount of, export goods. In other words, China should develop her export trade by increasing the per unit export foreign exchange earnings to achieve the goal of earning more foreign exchange through exporting. Intensive importing means taking effective measures to get more, or the maximum amount

of, use-value out of less, or the minimum amount of, foreign exchange to develop China's import trade and achieve the goal of maximizing the use-value.

Intensive exporting is the way to increase export macro-economic efficiency and expand the export trade exactly because it can keep abreast of the changes in the international market's competition mechanisms as well as China's basic conditions.

1. We should realize that as science and technology continue to develop and as the consumption level and the psychology of the world's consumers, especially those in the well-developed countries, change and competition in the international market intensifies, today's international competitive mechanisms are very much different from those before World War II. The most important indications are: 1) Nonprice competition is playing a relatively bigger role and price competition is playing a smaller role today. In other words, whether a product has a place in the international market is determined not by how low its price is but by its quality and other nonprice factors such as up-to-date style and pattern, product safety, packaging, ability to meet delivery deadline, and after-sale services. Since the 1980's, especially, there have been many new scientific and technical developments which will produce a new industrial trend worldwide in the 1990's, creating an era of the "new industrial products." Nonprice competition will play an even greater role in the international market, and international consumers will set even higher quality standards, even giving rise to a new, "perceived" quality in the international market, that is, besides satisfying the consumers' various needs, quality-wise, a product must have details about it which create an overall feel that attracts the consumers. In the international market in the 1990's, low-priced, less-than-quality products will have a difficult time finding a market. The international consumers would rather pay a higher price for quality goods that meet their performance standards than buy similar goods of poorer quality that cost less. 2) Today's international market is characterized by the presence of "niches." A "niche" is a market where small batches of high-quality, high-class, hot-selling goods are produced for a particular group of consumers. The countries must be able to capture a "niche" in the market in a timely fashion to be a winner. Faced with the changes in today's competitive mechanisms in the international market, China's export must go the way of intensification, and only by increasing the added-value of the export goods and turning them into luxury goods and specialties in which we have a "niche" can we meet the increasingly fierce challenge of today's international market competition.

2. Intensive exporting is an effective way to counter the West's trade protectionism. It should be pointed out that protectionism will remain at the heart of the well-developed Western nation's trade policies in the 1990's, and one of the characteristics of such protectionism often is to restrict the quantity of imported goods without limiting their per unit price. Intensive exporting

raises the per unit export exchange earnings by exporting better quality and higher grade products which in turn will enable us to circumvent the restrictions of the West's trade protectionism.

3. Intensive exporting is compatible the conditions in China where resources are relatively scarce. In absolute terms, China is a vast country rich in resources by world standards. But in per-capita terms, China is a developing country relatively scarce in resources. The per-capita resource possession rate is below the world's average. According to figures released by the State Statistics Bureau, China's per capita production rates with respect to major raw materials and energy resources are below world standards. Thus, the extensive, "success through volume," export management method no longer suits China's condition of lack of resources. It is even more important that we intensify the management of nonrenewable export goods.

4. Intensive exporting can ease the supply-demand conflict in the domestic market. The conflict between total demand and total supply in China, especially the conflict over the source of goods between the export market and domestic market, is likely to be a long-term phenomenon. Intensification can ease the conflict between the export market and domestic market over the source of goods and still guarantee steady increase in export and foreign exchange income, and in turn mitigate society's supply-demand conflict. Meanwhile, intensive exporting can help control inflation at home. This is because through intensive export management, we can reduce the export volume and curb the domestic price increase triggered by excessive export procurements, which in turn will ease and control inflation in the domestic economy.

Intensive importing is similarly the best way to increase the economic efficiency of importing and is a measure that suits China's conditions. First, through various effective means, intensive importing can let us get more, or the maximum amount of, use-value by spending less, or, the minimum amount of foreign exchange. It can alleviate China's shortage of foreign exchange. Second, intensive importing will give play to the advantages of China's role as volume buyer of imports. According to customary international trade practices, if a country imports a large amount of a certain commodity, it is entitled to a favorable price. But because of our ignorance of the concept of intensive importing, we have failed to give play to this advantage. For example, China is New Zealand's number one and Australia's number two buyer of wool, which is a valuable chip that should entitle us to a price break, but because we have violated the principle of intensive importing and have decentralized our wool purchases, we not only have not received discount prices but have allowed the other side to raise prices on us. It is estimated that in 1987 alone, China paid \$6 million too much for the wool it imported from New Zealand, and in 1988, we again over-paid by \$30 million.<sup>2</sup> Third, intensive importing can also reduce redundant introduction of foreign projects. In recent



years, in the process of bringing in foreign technologies and equipment, we have recklessly brought in many redundant production and assembly lines. This is mainly because of our ignorance of the concept of intensive importing.

### C. How do we make our foreign trade more intensive?

1. First we should straighten out the relationship between the speed of export development and export macroeconomic efficiency. Continuous increase in economic efficiency is the basic guiding ideology for all economic developments and is the starting point of export development. In particular, foreign trade is not the same as domestic trade and its economic efficiency has a direct bearing on the state's wealth. Thus, although it is important to keep up the rate of export development, it is even more important to maintain a rate which optimizes our export's foreign exchange earnings, that is, strive for a steady pace of export development by guaranteeing macroeconomic efficiency first.

2. We need to improve the conditions and strive to increase the added-value of export goods through technological improvement and development of new products and continue to improve product quality and fine-process the goods to turn them into average and high-grade products. In this way, even without increasing the export volume, we can still increase our foreign exchange earnings. Again, take silk exports as example. If China's silk export could match the not-too-high level of added-value attained by South Korea in 1986, our 1986 silk export foreign exchange earnings would have been \$2.57 billion higher without even increasing the export volume.

3. We should establish a concept of internationalizing the products. This means we must guarantee that our product quality meets the high international standards demanded by the world market while keeping prices at or below those of similar products in the international market. In the past, the main reason that China's exports were unable to compete with similar goods in the international market was their failure to meet the high international market standards for quality. At the same time, we lacked a thorough understanding of product quality. We often emphasized the intrinsic quality and overlooked packaging, fashionable style, sanitation, product safety, delivery deadline, and after-sale services. Thus, only by internationalizing our exports can we effectively make use of the factors in the nonprice competition to increase the per unit export foreign exchange earning rate.

4. We should control the volume of certain export products scientifically. For example, silk, tungsten ore, oolong tea, and cultured pearls are China's dominant export products. If we can adjust to the international market's changing demands and control the export volume of these goods scientifically, we will be able to increase the per unit export foreign exchange earnings. Meanwhile, we should pay close attention to our price

war strategies and make use of the "monopolistic" advantages some of our exports enjoy in the international market to continuously raise the unit price. For example, China accounts for 90 percent, 40 percent, and 41.8 percent of the world's export of raw silk, unrefined silk fabric, and grey cotton cloth, respectively. According to the general principle of international trade, if a country's exports are more than 40 percent of the world's export volume of certain goods, it is in a position to control and monopolize their international market prices. Thus, it is entirely possible for us to take advantage of our monopolistic position in some products to control and monopolize their international market prices and increase their per unit export foreign exchange earnings. Of course, we cannot set prices as we please. Under the general rule of pricing in a monopolistic-competition situation, the price of a product should be based not on its production cost but on the estimate of how much it would cost the competitors, including potential competitors, to produce that good.

5. We must strengthen the macroeconomic control and management of foreign trade and resolutely curb all exporting "outside of proper channels" in any form. We should not decentralize the management of exports of which we have a monopoly; instead, we should absolutely centralize management. Strengthening export control and management has become a precondition to increasing the per unit export exchange earning rate. Undermined by the flood of goods exported "outside of proper channels," China has been unable to raise the price of export goods in which we have an absolute advantage. Thus, we should promptly promulgate a "Foreign Trade Law" and take legal action to put an end to all types of exporting "outside of proper channels."

6. We should implement unified, central management of goods we import or export in large volume to facilitate unified action when dealing with foreign countries and increase our import-export macroeconomic efficiency. Categorizing by their monetary value, goods we import or export in bulk with value over \$100 million a year should be put under relatively centralized management to facilitate the intensification of foreign trade.

7. In accordance with the changes in international market trends, we should insist on a flexible import-export plan. When drawing up import-export plans, we should take into consideration and make allowance for possible changes in the international market and choose the most opportune time to import and export goods.

The implementation of the above strategic measures will make our foreign trade significantly more intensive, which in turn will expand our export trade and increase our export economic efficiency. In short, we believe that turning foreign trade away from extensive management and toward intensive management should become the choice of foreign trade development strategy in the 1990's, and perhaps well into the future. It should also be an important component and principle in the thorough reform of China's foreign trade system.

## II. Overall Concept and Tentative Plans of China's Restructuring of the Foreign Trade System in the 1990's

China's socialist economy is a planned commodity economy founded on the public ownership system. Thus, integration of the planned economy and market regulation should be the guiding ideology for restructuring the foreign trade system in the 1990's and well into the future. Intensification of foreign trade should be an important component and principle of the thorough reform of China's foreign trade system.

A. Too much decentralization and not enough centralization was at the heart of the problem in restructuring the foreign trade system during the last 10 years.

A decade of reform of the foreign trade system has produced clear results with respect to mobilizing general enthusiasm in foreign trade, getting rid of the "big pot" system whereby the state was responsible for all profits and losses, and promoting the integration of industry and commerce (such as the import agency system); it has also promoted foreign trade development. But several problems are still plaguing the foreign trade system. Central to the problems is the fact that there has been too much decentralization and too little centralization of management and administration. As a result, we have lost overall control; everybody is into exporting, and we are competing against ourselves; we let goods be exported "outside of proper channels" and drain our own profits; we let our export macroeconomic efficiency plunge and cause the state to incur serious economic losses. Meanwhile, because of the loss of macroeconomic control over foreign trade, management is overly decentralized, and domestic procurement prices are too high, "price wars" have erupted one after another. Worse yet, regional blockades and regional separatism have sprung up everywhere, leading to an absurd situation where our own exports have been reimported and we compete with ourselves to export resource-type and raw material-type, primary goods of low added-value. These problems only demonstrate that the restructuring of the economic system in the past has failed to keep abreast of today's international market competition in some ways and has violated the aforementioned intensive foreign trade principles.

### B. Basic Concept and Principle in Deepening the Reform of the Foreign Trade System

1. It should be pointed out that centralization and decentralization are not the final goals of the restructuring of the foreign trade system. They are only the means to achieve the goals of expanding our export trade, increasing macroeconomic efficiency in foreign trade, and promoting national economic development. Foreign trade practices in the last 40 years proved that neither overly-centralized management nor overly-decentralized management meets the needs of China's foreign trade development or improves the economic efficiency in foreign trade, and neither can keep abreast of the aforementioned changes in the international market competition mechanisms or conform to the

principle of intensive foreign trade. Thus, the degree of centralization or decentralization in the management of import and export goods should be determined, first, in accordance with the principle of intensive foreign trade, and second, in accordance with today's changing international market competition mechanisms.

2. Our socialist planned commodity economy demands that we gradually set up a new foreign trade system which integrates the planned economy and market regulation. It should be pointed out that market regulation is not equivalent to decentralized management. We should be fully aware of the unique and complicated nature of foreign trade as determined by today's unique and complicated world market. Some Western countries may operate under a market economy, but in order to cope with the increasingly fierce competition in today's international market, their foreign trade management and administration are fairly centralized. For example, South Korea's foreign trade plan is set by the central government, with direct official interventions and coordinated enterprise implementation. We should also note that competition in today's international market is competition under monopolistic conditions. Today's trend toward increasingly powerful regional syndicates in the world economy is in essence a kind of regional trade monopoly that has emerged amid the fierce international competition. Thus, the objective of the thorough reform of our foreign trade system should be to keep up with today's international market competition. This mandates that our foreign trade management system should not be too decentralized; instead the system should be more centralized than decentralized, with centralized planning, centralized policies, and a unified approach to foreign trade. Exports which China dominates in more than 40 percent of the world's export volume should be put under absolutely centralized management to facilitate intensive exporting. Major exports worth more than \$100 million a year should be put under relatively centralized management. Products worth less than \$100 million a year in export value may be put under decentralized management. Likewise, major imports worth over \$100 million a year should be put under centralized management, and imports worth less than \$100 million can be put under decentralized management. This setup still complies with the principle of intensive importing and exporting.

3. In view of the above, we should give full play to the superiority of China's socialist system and gradually set up some keiretsu-type, large foreign trade enterprise groups with Chinese characteristics. These enterprise groups should be syndicates with foreign trade, production, scientific research, and market study functions. They should have their own export production system, their own scientific research system for developing new export products, and international market information study system so that they can become syndicated foreign trade enterprises that combine foreign trade, production, scientific research, and market research. Together, they should control 60-70 percent of the nation's foreign trade

volume, and instead of parcelling out their foreign trade contracts, they should enter into large-scale contracting as syndicated enterprise groups. The advantages of these enterprise groups are: One, they facilitate the state's macroeconomic regulation and control over foreign trade development, especially the state's use of various economic levers to apply indirect control and implement biased policies. Two, they have abundant funds and solid scientific research capability and can apply modern science and technology directly on developing new export products; basically changing and improving China's industrial structure and export product-mix while increasing the technical content and added-value of China's exports to achieve the goal of increasing export economic efficiency. Three, they can radically change our overly-bullish attitude toward exporting and prevent us from competing against ourselves and make sure that the centralized plans, centralized policies, and unified approach to foreign trade are put into effect. In short, these large syndicated foreign trade enterprise groups can be extremely competitive internationally and can keep up with the fierce international market competition under monopolistic conditions, as well as to help us solve the problems brought by our earlier practice of parcelling out the contract management responsibilities. They are an important part of the strategic measures to bring about an intensive foreign trade system.

#### Footnotes

1. Calculated based on data furnished by *Chinese Foreign Economic and Trade Yearbook*, 1989, p. 303.
2. GUOJI SHANGBAO [INTERNATIONAL BUSINESS NEWS], 28 January 1989.

## ECONOMIC ZONES

### Ningbo Activates Programmed Telephone Lines

OW2109112690 Beijing XINHUA in English  
1052 GMT 21 Sep 90

[Text] Ningbo, September 21 (XINHUA)—Ningbo, a port city in Zhejiang Province, put another 8,000 program-controlled telephone lines into operation Thursday.

They are part of a large program-controlled telephone project which is to be built with a low-interest loan of 31.75 million U.S. dollars from Australia.

When completed in June 1992, the project will provide a total of 135,000 telephone lines.

It is learned that another 62,000 lines are expected to go into operation by next February.

The new network will provide domestic and international direct dialing telephone and fax services, a local telecommunications official said.

This is part of the effort made by the Ningbo City government to improve local conditions for overseas investors. So far, Ningbo is connected by telephone with 500 cities throughout China.

### Shanghai Briefing on Pudong Development

OW1309220390 Shanghai City Service in Mandarin  
2200 GMT 10 Sep 90

[From the "Morning News" program]

[Text] The Shanghai Municipal People's Government held a news briefing yesterday to publicize the legal documents governing the development of the Pudong area. Mayor Zhu Rongji and other officials fielded reporters' questions at the briefing.

A reporter from TIME magazine asked: Is the development of the Pudong area the same as the other economic and technical development areas in China? The prospects of developing Pudong are encouraging. However, the present infrastructure is backward and foreign businessmen do not see enough merits in making investment. Moreover, bureaucracy in Shanghai is as hard as the stones of the Great Wall. How would you change the situation so that the development of the Pudong area can attract more foreign investors?

Zhu Rongji answered: State Council Premier Li Peng announced in Shanghai last April a plan to develop and open Pudong. This is a major strategic policy decision made by the party Central Committee and the State Council, and it represents an important step forward in continuing China's reform and opening policy. As I disclosed during my visit to Hong Kong and Singapore earlier this year, concrete laws and regulations were being formulated in line with the central authorities' policy decision. It took about four months to complete the formulation of the laws and regulations in August.

The party Central Committee and the State Council have paid great attention to Shanghai's efforts to develop Pudong. General Secretary Jiang Zemin and Premier Li Peng have personally attended to this project. Officials from the relevant State Council departments are here today to announce three sets of laws, thereby demonstrating the authoritative and serious nature of adopting the laws and regulations to increase the confidence of foreign investors. I would also like to point out that Premier Li Peng personally approved the laws and regulations.

That a news briefing is especially given on these laws and regulations, which were formulated and translated into English and Japanese within a short time, indicates not bureaucracy but high work efficiency. With the support of the party Central Committee and the State Council, it is believed that these laws and regulations can encourage foreign investors and promote the development of Pudong. The future is bright for Pudong's development.

Of course, we will continue to study and perfect the laws and regulations. Nevertheless, I believe that tax reduction and exemption and other preferential measures do not reflect all aspects of a good investment environment—it is the overall investment environment that counts. As I have often said, Shanghai's industry is equipped with supporting facilities, and the municipality has resourceful scientific and technical personnel and a high level of managerial expertise. These are Shanghai's overall advantages. I believe that Shanghai's current infrastructure is not that bad. There are quite a few successful foreign funded enterprises in the existing three economic and technical development zones in Shanghai, namely Minhang, Hongqiao, and Caohejing, and they can accommodate more foreign funded businesses. Some sections of Pudong are already equipped with the basic infrastructural facilities. Conditions are ready for the construction of projects. Incidentally, the preferential measures offered by the three economic and technical development zones are completely identical with those by the Pudong area. Of course, it is a major decision to locate the bonded zone in Pudong, but there are bonded warehouses in the existing three economic and technical development zones. Foreign banks are allowed to set up branch offices in Shanghai, but not necessary in Pudong. They can be in Puxi. In short, Shanghai welcomes investment in not only Pudong but also the three existing development zones.

As for the bureaucracy you have mentioned, I do not deny it. I too hate bureaucracy. But it can be called a universal disease. Previously, to obtain the approval for a project would require more than 100 permission stamps. The committee on foreign-funded businesses has been set up with an aim to cut down the required number of stamps for approval of a foreign-funded project to one. Although this target has not been met, office efficiency has improved. Otherwise, it will be impossible for Shanghai to have six of the 10 best joint ventures in the country. This explains that Shanghai's investment environment is good. I experienced some bureaucracy during my recent visit to the United States. If you say Chinese bureaucracy is like stones, I believe bureaucracy in some parts of the United States is like stainless steel.

A reporter from CHINA DAILY asked: As the situation in the Gulf region intensifies, there have been discussions worldwide concerning the possibility of an imminent global economic depression. Should this economic depression really happen, what positive or negative effects would it have on the development and opening of Pudong?

Chen Yuan answered: As far as banking is concerned, we have so far not detected any negative impact caused directly by the Gulf situation on the Chinese economy. Of course, there are some indirect effects which will be seen in the future.

A report from Shanghai's WEN HUI BAO asked: Can state, collective, and township and town enterprises engage in the production of export and import goods in

the Shanghai Waigaoqiao Bonded Zone? What are the problems facing the bonded zone?

Dai Jie answered: Only enterprises with the license to handle export and import businesses can set up offices in the Waigaoqiao Bonded Zone. The customs office will not accept a township and town enterprise which does not have a license. Waigaoqiao is the first bonded zone in China. It may encounter various shortcomings and difficulties on the road of advancement. This is my reply.

A REUTER reporter asked: When Mayor Zhu discussed the investment environment just now, he mentioned not only tax reduction and exemption, but also the overall investment environment. Does this include political stability and legal protection of the rights of foreign investors? I personally believe that the investment environment in these two aspects has regressed since the 4 June incident last year. Will the regression affect the opening and development of the Pudong area?

Zhu Rongji answered: The investment environment includes, of course, political stability. I believe Shanghai's political environment is stable, and it is more stable than before the 4 June incident. Many foreign friends who have visited Shanghai may testify for us. I hope foreign investors and entrepreneurs will have confidence in Shanghai's investment environment. Shanghai's situation is stable; the risk of investment is small here, and this is a good place to invest. You are welcome to visit Shanghai.

A FINANCIAL TIMES reporter and a member of the Shanghai branch office of the Standard Chartered Bank asked: According to the briefing just now, foreign banks which have branch offices in Pudong can enjoy tax reductions and exemptions. How will the four foreign banks already operating in Shanghai figure the percentage of their revenues? Is it according to the existing 50 percent tax rate? As the mayor has just mentioned, enterprises in the existing three development zones in Puxi can also enjoy the preferential tax rate offered in Pudong. Are the branch offices of the four foreign banks entitled to the same preferential measures as those offered in Pudong?

Zhu Rongji answered: The document concerning the establishment of foreign bank branch offices in Shanghai was brought to Shanghai by Vice Governor Chen Yuan [of the People's Bank of China] last night [9 September]. I can only discuss my interpretation of the document: After a foreign bank applies at the People's Bank of China and obtains its approval, it can set up a branch office in Shanghai, either in Pudong or Puxi, and have its income tax rate reduced from 50 percent to 15 percent, which is the same preferential treatment given to foreign banks in the Shenzhen Special Economic Zone. However, to enjoy the scope of businesses prescribed in the legal document and the preferential tax rate, the four foreign banks already operating in Shanghai must

reapply and obtain the approval. They cannot automatically enjoy the preferential measures. In short, all are handled according to laws and regulations and treated on an equal footing.

A Japanese KYODO reporter asked: According to a recent Japanese press report, the Shanghai Municipal Government has requested that Japan use a portion of its 810 billion yen loan to China for developing Pudong. Is this report reliable? If so, what are the results in negotiations with the Japanese side?

Huang Ju answered: Projects to be financed with the third Japanese yen loan are decided by the State Planning Commission. Only one project in the original plan—the construction of a pier near the Baoshan Iron and Steel Complex—is related to the development of Pudong. It is a project belonging to a central unit in Shanghai and, of course, also is related to transportation for developing Pudong. However, none of the projects is related directly to the development of Pudong. In keeping with the demands for developing and constructing Pudong and according to the wishes of many Japanese friends who have visited Shanghai, it is hoped that the third Japanese yen loan will add projects for the development of Pudong. However, this is a matter to be decided by the State Council, not the local government.

A reporter of the British newspaper THE INDEPENDENT asked: Mayor Zhu, you said during your visit in Hong Kong that the waterfront will become an avenue of banks, and that many offices of the Shanghai Municipal Government will move from the tall buildings which used to be banking offices. Will there be difficulties and problems in doing so? Moreover, among people overseas, Pudong's development very largely is associated with your name. Once you leave Shanghai in the future, what will happen?

Zhu Rongji replied: It is my wish that the waterfront will become an avenue of banks. As for the relocation of the government offices from these tall buildings, it depends on how much money you would pay, because our land lease is based on land prices. The price of land along the waterfront is quite high. I do not think my name is associated with Pudong's development. Pudong's development is a strategic decision made by the CPC Central Committee and the State Council. This decision will be carried out regardless of who the leader of Shanghai is. In my case, there are three more years before my term of office comes to an end.

A reporter of the U.S. journal TIME asked: Shanghai's underdevelopment, or relatively sluggish development, is caused by the excessive amount of revenue that Shanghai must turn over to the central treasury. In the future, how much of Pudong's revenue will be delivered to the state? Shanghai already has three economic and technical development zones. Why is it necessary for Shanghai to establish the new Pudong District? Does the establishment of this new district mean that a new economic policy is in the making?

Zhu Rongji replied: The reason Shanghai can proceed with building Pudong's infrastructure is because it has had great support from the central government. Under a contract which Shanghai concluded with the central government, Shanghai must deliver a fixed amount of its revenue to the central government. After fulfilling this quota, Shanghai can spend the extra money on the development and construction of Pudong. Shanghai's three economic and technical development zones basically are reserved fully for projects. On the other hand, Pudong is a piece of valuable land for possible development and an ideal place for foreign investors. The 350 square km-Pudong development zone approved by the central authorities is the largest development zone in China ever. The Waigaoqiao free trade zone built with the approval of the central government is also an unprecedented project in China. This shows that Shanghai has adequate strength and resources for proceeding with the open policies. The policies which the new Pudong District will carry out basically are the same as those being carried out by the economic and technical development zones, plus certain policies being implemented by the special economic zones. Basically, these policies are a continuation of the nation's current open policies, plus some new policies I just mentioned.

#### Zhuhai Special Zone Opens Office

HK2009023590 Hong Kong HONGKONG STANDARD (BUSINESS STANDARD) in English 20 Sep 90 p 1

[By Cheung Lai-kuen]

[Text] China's central government may revamp its entire ports development plan in Guangdong province, according to an official of Sanzao district in the Zhuhai special economic zone.

The current locations for the proposed ports development are mainly along the east coast.

Yu Rongai, deputy head of the Zhuhai Sanzao management district, said in Hong Kong yesterday that officials from the State Planning Commission in Beijing visited Sanzao recently to study the possibility of developing Gaolan in Zhuhai into an international port to serve the southwest part of Guangdong.

Mr Yu was briefing the press after the official opening of an office of the West Economic District of Zhuhai in Hong Kong yesterday.

Mr Yu said the director of the State Planning Commission, Zhou Jiahua, had pointed out that the majority of the ports earmarked for development in Guangdong were located along the east coast.

This would create an imbalance as the southwest part of China had been neglected in the original plan.

The ports located in the central and east coast of Guangdong, include Shekou, Chiwan and Yantian in the Shenzhen special economic zone.

In addition the ports of Huizhou and Shantou are also on the east coast of Guangdong.

Mr Yu quoted Mr Zhou as saying that a revamp in the location of ports in south China was necessary.

Mr Yu said the State Planning Commission had agreed in principle that Zhuhai develop Gaolan as a deep water port.

But officials had been asked to undertake the scheme progressively, in keeping with the regional government's financial resources. He noted that the Guangdong provincial government had included the Gaolan port as a key development project in the Eighth 5-Year economic plan, which begins next year.

Mr Yu said Gaolan port would be developed in phases and would initially cater to local exports and imports.

But the development envisaged a major coal pier with the capacity to handle 100 million tons following its completion.

Some of the basic infrastructures for the port, include linking a few islands with the mainland to form a larger port area, and a highway to facilitate transport between the port and city centre of Zhuhai.

These were under construction, Mr Yu said.

Mr Yu said the construction work on two berths with the capacity to handle vessels of 20,000 deadweight tons would start in November. The total investment for the two berths would be some U.S. \$30 million and the 43 kilometre high-speed road was estimated to cost U.S. \$50 million. Mr Yu said the Zhuhai municipality would provide the investment for the development of some 20 km of the highway. The rest would come from foreign borrowing.

## TRANSPORTATION

### Transport Network in Jinggang Mountain Area

OW2209142590 Beijing XINHUA in English  
1241 GMT 22 Sep 90

[Text] Nanchang, September 22 (XINHUA)—A transport network covering highways, railways and water and air routes has taken shape in the Jinggang Mountain area, known as a "cradle of Chinese evolution", in east China's Jiangxi Province.

In the years between 1927-29, because of its distinctive geographical feature and isolation from the outside world, the Jinggang Mountains, bordering Jiangxi and Hunan Provinces, served as China's first rural revolutionary base under the leadership of late Chinese leaders Mao Zedong and Zhu De.

In the past decade, in order to boost local economy, the mountainous area has opened itself to the outside world by building a transport network of highways, railways, water and air routes.

Now the Jinggangshan City has three highway trunk lines leading to Nanchang, the provincial capital, in the north, Hunan and Guangdong Provinces in the west and Fujian Province in the south.

The trunk lines and round-the-mountain highways leading to the major scenic spots and sites of former revolutionary bases have formed the highway network.

The network accommodates some 800,000 visitors and 200,000 tons of freight very year.

Highways in Jian Prefecture, where the Jinggangshan City is located, total 5,298 km, a 13-fold increase over those in 1949 when the People's Republic was founded.

Now buses can reach 95 percent of the towns and 70 percent of the villages in the prefecture.

Over the past decade the state has allocated nearly 200 million yuan to construct highways, bridges, ports and navigation channels in the prefecture. The prefecture now has six ports and 36 berths.

A 160 million-yuan railway line between Nanchang and Jian Cities is under construction and scheduled for completion in 1992.

In addition, the Taihe Airport on the eastern side of the Jinggang Mountain opens air routes to both domestic and foreign cities.

### Chengdu-Chongqing Expressway Construction Begins

OW2509195490 Beijing XINHUA in English  
1859 GMT 25 Sep 90

[Text] Chengdu, September 25 (XINHUA)—Construction started today for a 340-km expressway to link Chengdu, capital of Sichuan Province, and Chongqing, a leading industrial city in the southwest China province.

A key state construction project, it is only a little shorter than the newly-completed Shenyang-Dalian Expressway in northeast China's Liaoning Province, which went into use last month.

It is learned that 88 km of the expressway will be completed in the first stage of the construction, and the rest, in the second stage. When the five-year construction project is completed, a trip between the two cities will take five hours.

The new expressway will link up with roads to Shaanxi Province to the north, Yunnan and Guizhou Provinces to the south and the Yangtze River transportation network.

According to the plans, the new expressway will be able to accommodate some 20,000 motor vehicles per day.

### Shandong Achievements in Highway Construction

*SK2109093790 Jinan Shandong Provincial Service in Mandarin 2300 GMT 20 Sep 90*

[Summary] So far, Shandong Province's total highway mileage has reached more than 39,700 km, of which more than 6,000 km belong to first-grade highways, accounting for more than one-seventh of the national total, ranking first in the whole country. Now, 99 percent of townships and towns in the province and 76 percent of villages are connected with highways. The highway transport volume has accounted for more than 80 percent of the province's total transport volume. Since the implementation of the seventh five-year plan, Shandong Province has given special emphasis to highway construction, concentrated manpower, and financial resources on building and renovating 10 trunk lines, six major highway bridges and 10 overpasses, and using World Bank loans to build the no. 308 state highway, the second-grade Juancheng-Gaotang highway, and a highway in Jiyang. At present, efforts are being made to use World Bank loans to build the first-grade Jinan-Qingdao highway.

### Jining-Xinghe-Laoyemiao Road Construction Begins

*SK2609013290 Hohhot NEIMENGGU RIBAO in Chinese 22 Aug 90 p 1*

[Summary] The public bidding for the construction of the first-phase project of the Jining-Xinghe-Laoyemiao section of the No. 110 national highway, which is one of the highway construction projects of the Ministry of Communications during the Eighth Five-Year Plan period, recently ended in Jining. All construction units entered the construction site. The No. 110 national highway is the main artery of communications from Beijing to the great northwest via Hebei and Inner Mongolia and is one of the main trunk lines of the 12 highways planned by the Ministry of Communications. The Jining-Laoyemiao highway is the first section of the No. 110 national highway entering Inner Mongolia. The total length of the main line is 96.61 km, and the Jining and Xinghe branch lines are 10.16 km and 3.05 km, respectively, with the total mileage thus equalling 109.83 km. Twelve large and medium-sized bridges will be built on the whole line. The construction period is scheduled for four years, and the planned investment is 97.25 million yuan.

### Fujian Province Plans Port Expansion, Construction

*OW1809140290 Beijing XINHUA in English 0912 GMT 18 Sep 90*

[Text] Xiamen, September 18 (XINHUA)—East China's Fujian Province plans to build or expand coastal ports in the next few years to meet the demands of its booming export-oriented economy.

A provincial official in charge of port construction said the province has built 40 berths over the past five years, and three-fourths of them are expected to go into operation by the end of this year.

However, Yang Shuilai, director of the provincial port and navigation administration, said these facilities are still far from meeting the need.

He said the province plans to build 10 large deep-sea berths and a number of smaller ones during the Eighth Five-Year Plan (1991-95).

Included are a multifunctional berth with a handling capacity of 100,000 tons of containers, a berth able to handle 370,000 tons of sundry goods and a special coal wharf with a handling capacity of 35,000 tons.

Yang said the Fujian ports' handling capacity will more than double when all these projects go into operation.

He expressed his welcome for foreign investment and cooperation in these projects.

### New Rail Link Meets Financial Obstacles

*HK2208024390 Hong Kong HONGKONG STANDARD in English 22 Aug 90 p 10*

[By Cheung Po-ling]

[Text] The Ministry of Railway's plan to build a new railway line linking Beijing and Hong Kong has met with financial obstacles as local governments along the line are reluctant to contribute funds, according to Chinese sources.

The new railway which will be included in the Eighth Five-Year plan will run through some 10 different provinces and municipalities.

Since the construction of the gigantic project was estimated to cost 15.6 billion yuan (HK\$25.7 billion), the ministry expected it could be funded by both central government and regional authorities along the route.

The construction cost of railway lines is usually shouldered by central government and only in cases where small-scale lines cater for local are regional governments asked for funding.

"Due to the economic slump in the past few years, the ministry itself also runs short of funds and thus it decided to resort to the help of provincial governments," said a source.



At present, the ministry is busy negotiating with regional governments on the terms of contributions.

In principle, those regions which wish to have a longer portion of the railway should donate more funds.

The ministry expected regional governments would contribute 20 to 25 per cent of the cost.

The new line was to promote economic development in backward regions such as Jiangxi and Anhui.

However, sources close to the ministry said most governments of impoverished areas cannot afford to contribute.

For instance, Jinggang Mountains in Jiangxi province, the Dabie Mountains bordering Henan, Anhui and Hubei are among the "10 impoverished areas" in China.

Over-burdened facilities and a lack of rail transport has hindered economic development. Beijing hopes the new railway to Hong Kong, an important entrepot for China, will benefit cities along the route.

The source explained: "As the line would only make profits after 1997, the present contribution would mean a heavy financial burden for those regions in straitened circumstances.

"If the central authorities failed to secure support from the regional colleagues, it would mean the central government has to bear all the costs by itself.

"In that case, the authorities might be forced to amend the plan by modifying the route so as to pass some relatively well-off regions before the blue-print was submitted for approval as part of the Eighth Five-Year plan," the source said.

The 2,364-kilometre new line aimed to ease congestion on the over-burdened north-south railway corridor and pave the way for the return of Hong Kong to China in 1997.

The new rail line would improve communications and facilitate the transportation of raw materials to manufacturing centres in China and elsewhere.

## AGRICULTURE

### Effects of Grain-Cotton Price Ratio Mechanism

90CE0487A Beijing JINGJI RIBAO in Chinese  
17 Aug 90 p 3

[Article by Song Qing (1345 7230): "Rebound Effect of the Grain-Cotton Price Ratio Mechanism"]

[Text] Correlation Between Grain and Cotton Price Ratio Movement and Cotton Output

During the period immediately following the founding of the People's Republic, the state adopted a series of measures to encourage and support cotton production,

and cotton output increased greatly from what it had been prior to liberation. In 1955, national output of cotton reached 30.369 million in a 3.4-fold increase over 1949. During this period, the grain-cotton price ratio was maintained at a fairly high level. From the period 1950 through 1955, the price ratio between grain (six different kinds of grain) and cotton averaged 1 to 14. During the more than 20 years thereafter, however, cotton output rose and fell, output exhibiting an undulating motion, cresting in 1973 at 51.235 million dan, and then dipping into a trough. During this period, the degree and frequency of fluctuations of the grain-cotton price ratio was substantial, averaging 1:12.4 during the period 1956 through 1960. During the period 1961 through 1965, it slid to 1:10.1. From 1966 through 1971, it slid to 1:8.8, and between 1979 and 1978, it rose again to 1:10. Obviously, the too rapid and too frequent fluctuations in the grain-cotton price ratio played a decisive role in limiting wild rise and fall of cotton output.

It is generally known that the rural economic system reform and the output-related contract responsibility system of 1979 brought about a fundamental upturn in the country's agricultural production. Beginning that year, a bumper cotton harvest was brought in for six years in a row, gross output of cotton increasing year by year and reaching a "peak" in 1984 when it reached 125.16 million dan. This was more than an 11-fold increase since 1950, the period immediately following founding of the People's Republic, and a three-fold increase over 1978. The main reason for such a swift revival and development of output within the short space of just a few years was that the state raised the national cotton procurement prices for three years running from 1978 through 1980. The price rose 8.9, 15.2, and 10 percent respectively during these three years. Consequently, the absolute price paid for cotton purchases rose, and the grain-cotton price ratio was about equitable and remained relatively stable. From 1980 through 1983, the grain-cotton price ratio revived to 1:10.5, causing a warming and a development of cotton output. However, because of the low level glut of cotton that the price and the flow systems caused, it became difficult to sell cotton everywhere in the country during 1984. A macroeconomic judgment of "even were it not to be grown for three years, the cotton on hand would not be used up" also ensued, leading to the state policy decision of 1985 to readjust downward the cotton procurement price for two consecutive years. Subsequently, the grain-cotton price ratio narrowed with each passing year, falling from 1:10.28 in 1983 to 1:8.16 in 1988. In 1989, the grain-cotton price ratio in Anhui Province fell to an all-time low of 1:6.9. As a result of the rebound role of further lowering and distortion of the grain-cotton price ratio, cotton production costs and returns moved in opposite directions, and the cry "difficulty buying cotton" arose everywhere. A slide and then standstill in cotton output was unavoidable. In 1989, national cotton output was 39.4 percent less than in 1984, and the conflict between supply and demand was evident.

A correlation analysis that the writer made using historical data such as the country's cotton output indices, and grain-cotton price ratios shows the following: The effect of grain-cotton price fluctuations on the cotton output index was fairly marked, and its effect lasted from one to two years. A relative coefficient of 0.5 between the two means that when the grain-price ratio rises, cotton output increases, and returns improve. Conversely, when the grain-cotton price ratio narrows, cotton output declines, production slides, and returns fall.

In addition, a correlation analysis of national grain-cotton price ratio movements and peasant farming intentions for the past 20 years shows the following: When the grain-cotton price ratio stabilizes around 1:10.2 (the average 1972 - 1983 price ratio), the area sown to cotton and to grain are relatively stable; cotton output rises steadily; the cost-benefit ratio rises; and the conflict between supply and demand eases. When the grain-cotton price ratio is lower than 1:9 (the average 1984 - 1989 price ratio), the area planted to cotton declines, cotton output slides, costs rise, returns fall, and the conflict between supply and demand becomes prominent. When the grain-cotton price ratio is higher than 1:12 (the average 1950 - 1960 price ratio), the cotton growing area increases tremendously; returns rise substantially; the relative grain growing area declines; grain prices rise; and there is a rebound back to the cotton production realm. This leads to tremendous fluctuations and drops in the grain-cotton price ratio, which are ultimately inimical to the development of cotton production. Therefore, an equitable (meaning a balanced) grain-cotton price ratio stabilized at 1:10 or 1:11 is about right. This helps avoid too great an emphasis on grain and other cash crops, a tendency to slight cotton production, and round after round of price hikes. This holds great significance for coordinated and steady development of stable agricultural products such as grain, cotton, and oil-bearing crops, as well as a tremendous increase in the supply of raw cotton.

#### **Reasons for and Negative Role of Inequitable Grain-Cotton Price Ratios**

The equitability of grain-cotton price ratios is controlled mostly by the state's selection of macroeconomic regulation and control policies and of the price operating mechanism.

1. State short term selection of macroeconomic regulation and control policies leads to a distortion of grain-cotton price ratios and a decline in peasant interest in growing cotton.

State adoption for a certain period of some controls over cotton output, or even measures adjusting cotton output downward are no cause for concern, but because of failure to think matters over carefully before coming to a decision, macroeconomic regulation and control remedies aim chiefly at a short term balance between supply and demand. There is much cutting back and little catching up, with the result that production goes through

great ups and downs making revival difficult. In 1984, cotton procurement was changed from the "base figure method" to the "proportional method." The national average price of standard grade cotton declined from 182.27 to 174.92 per dan. In 1985, the system was changed to the "inverse 3:7 ratio," and in 1986, the inverse 4:6 ratio price was instituted, the average price of cotton nationwide declining further as a result. In 1987, an "inverse 3:7" price was uniformly instituted nationwide, cotton procurement prices rising slightly. Cotton output rallied, but even after upward readjustment the procurement price of cotton was still three percentage points lower than before the downward readjustment of 1983. The lowering of prices, plus other policy measure reductions at the same time led to another distortion in the grain-cotton price ratio, the ratio falling from the relatively equitable 1:10.28 of 1983 to an all-time low in 1989. Peasant interest in growing cotton sank lower and lower, and cotton output declined year after year.

In addition, the lag in macroeconomic regulation and control measures makes attainment of the grain-cotton price ratios that government anticipated through price regulation difficult. In the spring of 1989, for example, the state inaugurated cotton price regulation measures. This was after the peasants made their 1988 fall and winter sowing plans, making it difficult to fit spring cotton into the crop rotation pattern. The spring cotton growing area for the country as a whole declined 3.9 percent from 1988, and for three years in a row the state has had to dip into its cotton reserves in order to maintain cotton textile industry production. As another example, a survey of the farm crop planting area intentions of 17,339 peasant households in Anhui Province showed that although the state decided to raise cotton procurement prices again in 1990, the cotton growing area will still be 9.1 percent smaller than in 1989, nine prefectures and municipalities in the province reducing their cotton growing area.

2. Differences in the degree of grain and cotton price increasingly slants the grain-cotton price ratio for a rapid widening of the divergence in comparative returns from grain and cotton.

Comparison of 1989 with 1984 shows grain procurement prices nationwide rose 75.7 percent, while cotton procurement prices rose only 35.6 percent. An accompaniment to this inequitable price ratio was a gap in comparative returns from grain and cotton for a lowering of cotton growing peasant interest in growing cotton. A nationwide survey of peasant priorities in planning agricultural production showed cotton production ranked in seventh place or lower. Survey data from Anhui Province showed that in a ranking of net after-tax returns per mu for 11 farm crops, cotton fell from third position from 1979 through 1984 to fourth position from 1985 through 1989. Comparison of 1988 with 1985 showed the average rate of increase in net return per mu from cotton, paddy, corn, and peanuts to be -0.3, 5.9, 12.7 and 31.2 percent respectively. The excessive tilt in the grain-cotton price ratio sent returns from cotton into a trough.

The role of the laws of value caused peasants, who have only limited funds to invest, to favor the growing of grain or other cash crops for a weakening of cotton. Numerous peasants switched out of cotton into grain or to the growing of other cash crops. This intensified further the contrast in economic benefits from the growing of grain and cotton causing grain production to go into an other than benign cycle. Statistics show that increased production costs in the growing of cotton and smaller net returns mean 22.60 yuan per mu less income from the growing of cotton versus the growing of paddy. If the additional 25 days of labor that have to be invested in growing cotton are factored into the calculations, the actual amount of less income from growing cotton instead of paddy is approximately 104 yuan per mu. A survey of cotton growing peasants in some cotton producing areas showed a nationwide 22.7 percent rise in cotton procurement prices in 1989; nevertheless, 90 percent of the cotton growing peasants maintained that even after this adjustment the cotton procurement price was still too low, and that growing grain was more profitable.

It should be realized at the same time that the state practices a "two track" price policy in the procurement of grain. Once fixed procurement quotas are satisfied, all grain remaining may be sold at the prevailing market price, the peasants themselves making the decisions. Cotton, however, may only be sold to the state. Currently, the negotiated price grain-cotton price ratio is only between 1:5 and 1:5.5, meaning that the more cotton growing peasants sell, the more they lose. The unsynchronized operation of the grain-cotton price mechanism causes a contraction in the state plan grain-cotton price ratio when it is finally put into effect, meaning that in the actual economic operating process, the grain-cotton price ratio correlation is distorted even more.

3. Prices of the agricultural means of production have increased tremendously; grain and cotton production costs have risen; and comparative returns have declined. However, cotton production costs are much higher than grain production costs, and the risks are greater, thereby intensifying the inequity of the grain-cotton price ratio.

"Industry is hot; agriculture is cold; and cotton is in the refrigerator." This phrase expresses the state of cotton production in recent years. In addition, because of the steady rise in prices of the means of production used in farming, and the relatively small degree of increase in cotton procurement prices, cotton production costs have risen dramatically and cotton growing peasant income has declined with each passing year. In 1989, the overall agricultural means of production retail price level in Anhui Province rose 21.7 percent. This included a 21.4 percent rise in the retail price of chemical fertilizer, a 60.1 percent rise in the price of agricultural pesticides, a 26.8 percent rise in the grain procurement price, but only a 13.9 percent rise in the cotton procurement price. The exchange price ratio between cotton and plastic sheeting

used in agriculture was 0.85:1 in 1983, increasing to 2:1 in 1989. Anhui Province agricultural product cost survey data show the following: In 1985, peasant net income from the growing of cotton was 155.63 yuan per mu, and in 1986, it was 198.10. In 1987, it fell to 174.71 yuan; in 1988, it fell again to 154.25 yuan; and in 1989 it fell further. Meanwhile, production costs climbed from 119.13 yuan in 1985 to 120.87 yuan in 1986, to 138.44 yuan in 1987, to 146.38 yuan in 1988, and higher in 1989. The tremendous increase in cotton production costs and the decline in returns distorted even further the already tilted grain-cotton price ratio for a serious dampening of peasant interest in growing cotton. Numerous peasants said that they would rather not have sales of materials to them coupled to purchases of cotton from them, and they also did not want to grow any more cotton. This caused several years of decline in cotton output, national cotton output in 1989 declining by 455,000 tons in comparison with 1987.

#### Remedies for Reconciling Grain-Cotton Price Ratios

The decline in net benefits from the growing of cotton that inequitable price ratios have occasioned has dampened peasant interest in production. The key to getting out of the standstill situation in cotton production and putting the brakes on a further slide in cotton production lies in equitable readjustment and stabilization of the grain-cotton price ratio.

A year-by-year increase in cotton procurement prices and proper highlighting of returns from the growing of cotton made on the basis of changes in cotton production costs and returns is a comparatively direct means for bringing the prevailing grain-cotton price ratio up or near to a fair price ratio. It should be pointed out, however, that one problem with raising prices is whether the government has sufficient financial resources to make the increase. Another problem is that price increase will only stimulate a single increase in production and that the deeper problems in agriculture will remain. Furthermore, raising the price of any given product will destroy the existing price ratio balance among all goods. Grain prices will go up and cotton prices will go down again. If cotton prices go up, oil-bearing crop prices will go down; and if oil-bearing crops go up, hogs will go down. There is no end to such a round of price increases. One problem is solved only to have another one crop up. Prices of the means of production tag along closely, going round and round in a big circle, and cotton prices are still in a trough. It seems that this problem cannot be considered solely in terms of short term behavior, which a rise in prices is. We have to begin with the country's reality of a conflict between cotton supply and demand, making the reconciliation of grain-and cotton price ratios the breakthrough point, and promoting the development and steady improvement of the cotton market operating mechanism.

Establishing and stabilizing an equitable grain-cotton price ratio. The formulation of an equitable grain-cotton price ratio is the key to halting paying attention to one

thing only to lose sight of another in grain and cotton production, insuring coordinated development of both, and eliminating the preference for growing grain rather than cotton to turn around the slide in cotton output. First, it is necessary to formulate an equitable price ratio (between 1:10 and 1:11), the main aim being relatively equitable and stable grain prices, and ultimately being able to realize a grain-cotton price ratio being kept in mind. This would enable the peasants, who engage in grain and cotton production to obtain generally equal returns, 0.5 kilograms of cotton being truly exchangeable for 5 kilograms of paddy. Second is the establishment of an equitable grain-cotton price ratio correlation. Once this correlation is relatively stable, parameters should be drawn up and revised as grain prices and as grain and cotton production costs change, the grain-cotton price ratio being appropriately revised each year, and prompt feedback being given the peasants. This will help another take off of the white cotton dragon.

Establishment of a cotton futures market and a cotton production risk fund. Establishment of a cotton futures market can provide producers with accurate future market information for the rational formulation of production plans. It can get around the problem associated with the long cotton production cycle of having to plan the cotton growing area two years ahead on the basis of market price information at the time cotton went to market, which occasions great fluctuations in the amount of cotton provided and wild rises and falls in output. Establishment of a cotton production price regulation fund would mean that when a bumper cotton harvest occurred, the government should be able to make large scale procurement at a protected price to maintain a certain price level, thereby insuring relative returns for the cotton growing peasants. This would keep cotton procurement prices relatively stable, and it would enable steady development of cotton production correctly guided by an equitable and stable grain-cotton price ratio correlation.

### **Cotton Shortages Hamper Textile Industry Growth**

90CE0414B Beijing JINGJI RIBAO in Chinese  
23 Jul 90 p 1

[Article by reporter Li Tiezheng (2621 6993 6927):  
"Cotton, Where Are You?"]

[Text] Cotton shortages have driven the textile industry, an industry which is critically important for producing tax revenues and foreign exchange, to the edge of the precipice.

Shanghai has been able to acquire only 2.8 million of the 4.4 million dan of cotton allotted in this year's national plan. In fact 6 million dan are needed for production.

In Tianjin, although 2.2 million dan of cotton are needed for production, the national plan allocated 1.43 million dan, and only 780,000 dan have been transferred in to date. Two hundred thousand spinning machines are idle.

Although Hebei is a cotton-producing province, it is short over 1 million dan of cotton, and large-scale production stoppages are unavoidable.

Shandong, Henan, Liaoning, Hubei, Sichuan, Guangdong, and Shaanxi are also in dire straits. Nearly all the cotton spinning districts and enterprises are threatened to one degree or another by cotton shortages. The textile industry is a mainstay of the national economy, producing one-tenth of China's overall GVIO and one-third of its foreign exchange earnings. The cotton spinning industry is its primary component, accounting for over half of the textile industry output value. Cotton has an impact on the vitality, product quality, and even the fate of enterprises.

At higher levels, including the central authorities, governors, mayors, and ministers, and at lower levels, among factory directors and purchasing agents, we have expended a good deal of effort, held many meetings, drafted numerous measures, and rushed hither and thither seeking help from all quarters to resolve the cotton situation. Some factory directors have lain awake nights worrying about cotton, and some governors and mayors have personally transported scarce, high-demand goods to cotton-producing districts to conduct a series of exchanges. One might well say we have suffered innumerable hardships and left no stone unturned in the attempt to solve this problem.

Because of cotton, enterprises have been forced to accept the fact that beggars can't be choosers. They have had to compromise—sacrifice the toes to save the foot, so to speak—and seek to purchase cotton at any price. They have had to grasp at any straw, any time it presented itself. Even the strict, time-honored technical specification requiring storage of new cotton for a month and a half prior to grading and allocation is going unobserved. This has had a serious impact on product quality.

Among the major agricultural and sideline products, only cotton is under state monopoly control, with centralized ordering and pricing. People will also remember that at the beginning of the 1980's China's annual cotton output reached 120 million dan, and peasants lined up, eyes brimming with tears, to implore the state's procurement officers to buy their cotton. Cotton sold for something over 170 yuan per dan and industries and commercial enterprises, clutching state subsidies, arbitrarily picked and chose what they wanted. Now people know that it was precisely this cotton glut that squelched peasant enthusiasm for growing cotton and led to today's cotton shortage. Although the state made a great effort to stop cotton production from declining, cotton output in 1989 nevertheless fell to 76 million dan. Overtly and covertly, the cotton market formed two different types of resources and prices for cotton within the state plan and outside the state plan. Enterprises had less and less state-plan cotton and it became necessary to use outside cotton at a cost of more than 300 yuan per dan. Therefore, the textile industry lost 460 million yuan this year. Planned allocation in the textile industry this year

amounted to only 60 percent of total cotton output. If we further deduct cotton for military needs and normal reserves, a substantial amount of cotton that remains will go to over 1,000 small cotton spinning plants with outdated equipment, a high degree of waste and low returns, or it will be hoarded to await September price increases.

These small cotton spinning enterprises, built on local and small collective interests, have raised our spinning capacity by more than 6 million spindles, approximately equivalent to an investment of 10 billion yuan, but they have ruined the composition of China's textile industry and depressed quality in the cotton spinning industry. Limited cotton resources cannot be distributed in an optimum fashion, and most are wasted. Advanced productive forces in key large and medium-sized state-run enterprises cannot be developed. This affects state revenues and export foreign exchange earnings.

The actual existence of two cotton prices has wrought chaos in circulation, reduced distribution at every level and contributed to irregularities and corruption such as adulteration, deception, racketeering, and extortion. Some have discovered that in a few areas year end bonuses in state monopoly departments averaged 5,000 yuan per person. The cotton that enterprises receive has often been fraudulently graded, and they could do nothing but grumble privately. This has directly affected product quality, and the ultimate victims are consumers and the state.

The most worrisome thing is that macroeconomic regulation methods and planned economics are gradually losing effectiveness in the cotton market, and the state's allocation plan has failed. This past spring three provincial governors went personally to obtain cotton and local individuals in charge signed guarantees, large task groups nevertheless had to be sent twice to ensure compliance and expedite transfers. At the beginning of June provincial governments issued an order setting a time limit for mayors and other individuals in charge to collect 1.5 million dan of cotton. They were to be punished for breaching discipline if they did not fulfill the order, yet even this had no effect. If this situation continues, it will threaten the existence of the cotton spinning industry and even the textile industry itself, and may cripple the solemnity and authority of the state plan.

Knowledgeable people are issuing an urgent appeal: Our immediate attention is essential to rectify cotton circulation. We should rectify cotton problems the same way we handled the coal situation. Each level of government and the various departments concerned must take immediate action to cooperate and coordinate the fight to straighten out small cotton yarn plants, track down individuals and departments responsible for failing to enforce the state plan, uncover illegal activity in the cotton business, and rapidly restore the dignity of the state plan.

Even though conservative estimates indicate that China's current cotton output can only meet the textile needs of the "regular army," the key to the problem is to recover cotton from wherever it has been misdirected.

#### Edible Oil Procurement Prices Adjusted

40060002E Harbin HEILONGJIANG RIBAO  
in Chinese 1 Sep 90 p 2

[Summary] This year China has adjusted procurement prices for edible oil. Rapeseed oil has increased from 158.4 yuan to 207.4 yuan per 50 kilograms; peanut oil 83.9 yuan to 131 yuan; cottonseed oil 125 yuan to 163 yuan; sesame oil 191.9 yuan to 239 yuan; tea oil 188.7 yuan to 235 yuan; and soybean oil 165 yuan to 215 yuan.

#### Grain Exports Meet Annual Target

HK0110013990 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 1 Oct 90 pp 1-2

[By staff reporter Qu Yingpu]

[Text] China's exports of grain, oils and foodstuffs have almost hit their 1990 targets with three months still to go while imports of those products reached 80 percent of the year's goal by September 10.

"We expect our company's exports to top \$1.45 billion by the end of this year, exceeding our target of \$1.24 billion," said An Jitao, vice-president of the China National Cereals, Oils and Foodstuffs Import and Export Corporation.

The corporation, the second largest foreign trading company in China, has the State-authorized monopoly for exporting rice, soy beans, corn and began dregs and for importing grain, oils and sugar.

By September 10, the corporation's exports already totalled \$1.14 billion, accounting for 91.8 percent of the year's target.

Of that amount, the exports of the four monopoly products were valued at \$698 million, 93.7 percent of the 1990 planned target, while exports of meat, foodstuffs, grains other than wheat and rice, eggs, vegetables, fruits and fisheries accounted for \$208 million, already 43 percent above this year's export target.

The corporation's exports go to more than 120 countries and regions including Hong Kong, Macao, the Soviet Union, Japan and the Eastern European nations.

An told BUSINESS WEEKLY China's imports of grain, oils and sugar have been "carried out smoothly." Grain mainly came from such countries as the United States, France, Australia and Argentina. The United States alone sold 2.7 million tons of grain to China during the first half of this year.

According to the latest statistics of the Chinese Customs, the country had imported 9.4 million tons of grains,

761,200 tons of sugar and 1.3 million tons of animal and vegetable oils between January and August.

An predicted that China's grain imports would come down next year because of good harvests this year.

China harvested 90 million tons of wheat this summer and is expected to bring in another six to 10 million tons later this year.

According to a report in the SOUTH CHINA MORNING POST, the United States Wheat Association estimates that because of the good harvests, China would at most import 11 million tons of wheat this year to meet the country's demand for 107 million tons. Last year the country imported 14.8 million tons, \$1 billion worth of which was from the United States.

"But China will continue to import grain for quite some time," An said, "and will also need to trade some kinds of grain produced at home for other kinds grown abroad."

Although grain fields are expanding—and are expected to reach 113.3 million hectares this year—grain experts predicted that China will have to continue to import grain in the foreseeable future.

They estimate that by the end of the century, China's 1.2 billion people will need between 500 and 550 million tons of grain. If present production conditions are not improved, they warned, the country will only be able to produce 470 million tons.

To develop China's trade in cereals, oils and foodstuffs, An said his corporation is planning to consolidate its 14 overseas enterprises and representative offices into different groups to cover different regions.

The 14 offices and firms—located in the United States, Canada, Japan, the United Kingdom, France, West Germany, the Soviet Union, Dubai in the Middle East, Australia, Hong Kong and Macao—have allowed An's corporation to enjoy the best overseas profits among Chinese trading firms.

An said his corporation will make more efforts to further improve the quality and packaging of its exports while trying to push to the international markets new products besides the current 2,500 kinds of grains, oils and foodstuffs.

To ensure sufficient supplies for its exports, the corporation has been establishing joint ventures with domestic and foreign producers to improve the output of canned food, fruits and vegetables, fodder, frozen meat, oils, spring rolls and Chinese dumplings.

An said the corporation already has 58 such ventures, some of which have used foreign technology to make better products which earn better prices on the world market.

### Imports of Cereals, Oils for August Reported

HK2809111790 Beijing CEI Database in English  
28 Aug 90

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals, oils and foodstuffs in August 1990, released by the General Administration of Customs:

Item	Unit	Aug 1990	Aug 1989
Cereals	Ton	948,806	1,114,857
Wheat	Ton	895,839	1,036,308
Soybean	Ton	85	31
Sugar	Ton	86,743	123,872
Animal oils and fats	Ton	17,162	9,283
Edible oil	Ton	109,124	86,126
Other oils	Ton	126,008	44,035

### Exports of Cereals, Oils for August Reported

HK2709105790 Beijing CEI Database in English 27  
Sep 90

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils and foodstuffs in August, 1990, released by the General Administration of Customs:

Item	Unit	Aug. 1990	Aug. 1989
Pig	head	258,500	251,010
Poultry	in 10,000	490	391
Beef	ton	8,596	3,083
Pork	ton	9,638	8,256
Chicken	ton	3,719	2,419
Rabbit	ton	2,294	1,595
Egg	in 1,000	41,019	30,541
Aquatic products	ton	24,061	19,309
Fish	ton	3,951	3,924
Prawn	ton	3,199	1,835
Cereals	ton	607,838	688,786
Rice	ton	16,729	17,737
Soybean	ton	121,681	126,508
Pulses	ton	83,179	36,006
Maize	ton	361,879	429,126
Vegetables	ton	88,268	81,138
Fruit	ton	12,862	15,205
Orange	ton	2	
Apple	ton	96	131
Sugar	ton	32,693	66,675
Canned food	ton	51,577	48,686

Item	Unit	Aug. 1990	Aug. 1989
Pork	ton	9,749	12,504
Vegetables	ton	28,989	25,465
Fruit	ton	5,690	2,636
Others	ton	7,149	8,080
Vegetable oil	ton	12,556	9,325
Peanut	ton	44,552	18,335
Cotton	ton	36,387	45,490

### Provincial Apple Output, Procurement Prices

40060002C Beijing NONGMIN RIBAO in Chinese  
19 Sep 90 p 2

[Summary] According to estimates from Shandong, Liaoning, Henan, Hebei, Shaanxi, Zhejiang, Sichuan and Beijing, gross output of apples this year will be 3,458,000 tons, a one-percent decline from 1989; and supply and marketing cooperatives will procure 855,000 tons, a 9.5-percent increase. The procurement price in Shandong is 0.8 yuan per kilogram, in Sichuan 0.9 yuan, and in Henan 1-1.2 yuan, maintaining the same level as last year. In Liaoning the procurement price per kilogram has dropped from 1.3 yuan to 1.1-1.2 yuan, and in Hebei the price has dropped from 1.12 yuan to 1.1 yuan.

### National Tobacco Procurement

40060001E Beijing NONGMIN RIBAO in Chinese  
3 Sep 90 p 1

[Summary] As of 20 August, China had procured 531,700 tons of flue-cured tobacco, fulfilling 25 percent of the annual plan.

### Anhui Tobacco Procurement

40060001A Hefei ANHUI RIBAO in Chinese  
3 Sep 90  
p 1

[Summary] As of 15 August, Anhui Province had procured 445,600 dan of tobacco, an increase of 206,000 dan over the same period in 1989.

### Joint Venture To Promote Beijing Animal Husbandry

HK2709024990 Beijing CHINA DAILY  
in English 27 Sep 90 p 2

[By staff reporter Wu Yunhe]

[Text] An agreement to set up an equity joint venture in feed production between Beijing and Hong Kong is expected to be signed by the end of the year. And the firm looks set to provide a platform for pushing ahead the Chinese capital's animal husbandry industry.

A feasibility study for the venture, which is expected to be launched by the end of next year, has been completed

by the Hong Kong-based Fair Brook Ltd and the Beijing State Farms Agribusiness Corporation and submitted to the municipal government, according to an official from the Beijing corporation.

"We are currently waiting for the approval of the government before signing the agreement and setting up the project to be called the Beijing Fu Mao Feed Corporation Ltd," he said.

He said the venture was expected to become a leading feed producer using the latest technology to meet the fast-growing demand in the area for high-quality feed.

This would give a boost to Beijing's animal husbandry industry, thus improving the quality of meat and people's diet in general over the next few years, he added.

### Investment

Total investment in the joint venture was expected to reach \$4.89 million, with \$3.67 million coming from the Hong Kong firm, he said, adding that his company had already spent about 1.5 million yuan (\$317,700) on preparations necessary for establishing the project.

Investors from both sides planned to equip their venture with advanced processing, storage, packaging, measuring and inspection facilities, the official said, adding that it would have a designed annual production capacity of 60,000 tons of compound feed.

The official said he placed great hopes on the joint venture to meet his corporation's supply needs.

Beijing's animal husbandry industry had developed rapidly over the past few years with funds provided by the government, and the corporation's consumption of animal feed was now around 200,000 tons a year, he said.

But its feed processing capacity stood at only 80,000 tons annually.

He said the venture would also alleviate the problem of low-quality feed and fast-growing production costs.

### Severe Drought Hits Guangxi

OW2209043190 Beijing XINHUA in English  
0311 GMT 22 Sep 90

[Text] Nanning, September 22 (XINHUA)—A severe drought in south China's Guangxi Zhuang Autonomous Region has dried up some 14,700 small rivers, and 48,000 ponds and reservoirs.

In addition, 65.55 percent of the local crops have been affected since the drought started at the end of August. Large areas of rice and other crops have withered, and spontaneous fires have destroyed some sugar cane crops.

In the Yao Autonomous County of Duan, half the wheat and soybean crops have withered.



So far, the regional government has allocated 70 million yuan and 22,000 tons of diesel oil as relief supplies, as well as a large number of pumps and other machinery.

Artificial rainfall measures have been taken 171 times.

### Hebei Canned Food Exports

40060001C Shijiazhuang HEBEI RIBAO in Chinese  
12 Sep 90 p 1

[Summary] By the end of August, the Hebei Grain and Edible Oil Export and Import Corporation had exported 11,123 tons of canned food and earned \$19 million in foreign exchange.

### Heilongjiang Reports Forestry Achievements

SK2109111590 Harbin Heilongjiang Provincial Service  
in Mandarin 1000 GMT 20 Sep 90

[Text] At the provincial work conference on forestry, which closed on 20 September, the participating comrades pointed out that in overcoming the crisis to make forestry prosperous, we should follow the road of self reliance and prosperity. The forest zones across the province have built more than 110 production bases and set up more than 300 timber processing plants or centers. Every forest farm or seedling nursery in the province has engaged in a diversified economy. Their annual output value has reached more than 120 million yuan and their profits have reached more than 16 million yuan. Units that have engaged in a diversified economy have become the province's pillar industry and trade in developing its forestry economy. In response, Vice Governor Sun Kuiwen, in his speech, urged the forestry enterprises across the province to carry forward the spirit of waging arduous struggle, to put the work of dealing with the economic crisis and difficulties on the foundation of self reliance, to develop a diversified economy, and to upgrade the rate of increased forestry output. During the work conference, the representatives from the forestry bureaus of five cities and counties, including Zhaoyuan, Hulin, Jixi, Acheng, and Xingan; as well as from the 10 grassroots-level forest farms, including the Tongqu forest farm in Daqing City, delivered reports on describing their experience gained in overcoming the crisis to make forestry prosperous.

### Henan Autumn Crop Area

40060001F Zhengzhou HENAN RIBAO in Chinese  
28 Aug 90 p 1

[Summary] The total autumn crop area in Henan Province is 104 million mu, an increase of 2,880,000 mu over 1989. The corn area is 32 million mu, an increase of 1,380,000 mu; the rice area is 6,800,000 mu, an increase of 300,000 mu, of this the hybrid rice area has increased from 1,050,000 mu in 1989 to 3,400,000 mu; and the cotton area is 12,600,000 mu.

### Hunan Farm Product Procurement

40060061E Changsha HUNAN RIBAO in Chinese  
22 Aug 90 p 1

[Summary] In July, Hunan Province procured 208,886 tons of grain, a 30.8-percent increase over the same period in 1989; 10,243 tons of vegetable oil, a 24.2-percent increase; 651,200 hogs, a 16.1-percent increase; 3,270 tons of eggs, a 35.2-percent increase; 18,864 tons of flue-cured tobacco, a 32.3-percent increase; and 11,541 tons of tea, a 12.5-percent increase.

### Jiangxi Rice Storage

40060061F Nanchang JIANGXI RIBAO in Chinese  
5 Sep 90 p 1

[Summary] As of 25 August, Jiangxi Province had put 1,487,110,000 kilograms of contracted rice in storage; and 241,060,000 kilograms of rice procured at negotiated prices, an increase of 109,470,000 kilograms over the same period in 1989.

### Jiangxi Expands Cotton Area

40060001D Beijing NONGMIN RIBAO in Chinese  
12 Sep 90 p 1

[Summary] From 1991 to 1993, Jiangxi Province will expand cotton fields by 1 million mu, the total cotton area will be 2.2 million mu and gross output will be 2.5 million dan.

### Low Prices Depress Liaoning Grain Production

90CE0325A Shenyang NONGYE JINGJI  
[AGRICULTURAL ECONOMY] in Chinese No 3,  
13 Jun 90 pp 23-26

[Article by Liu Fangming (0491 2455 2494) and Lu Chuncheng (4151 2504 2052): "The Key To Resolving the Grain Problem Lies in Bringing Order to Prices"]

[Text]

I

1. *Grain production costs rise; relative benefits of planting grain drop.* Statistics issued by the Provincial Agricultural Investigation Team indicate that prices for the five grains (paddy rice, corn, Chinese sorghum, millet, and soy beans) in 1988 were yielding 57.90 yuan more economic benefit per mou than in 1974. The actual increase was only 28.91 yuan, though, because more than half of the increase had been eaten up by increased costs. If we base our calculations on production costs and benefits from grain in 1988, our figures will show that peasants throughout the province should have received an extra 220 million yuan in income after grain prices were raised, but they had to spend over 500 million yuan because production costs had risen 14 yuan per mou. The rise in production costs was due mainly to rising prices for the means of production. Information issued by the Provincial Statistics Bureau indicates that the comprehensive average cost of chemical fertilizers was 269 yuan per ton in 1979, 357 yuan in 1984, and 426

yuan in 1988. Costs in 1988 were 58 percent higher than in 1978, and 19 percent higher than in 1984. The comprehensive average price for farm chemicals was 1145 yuan per ton in 1978, 2,605 yuan in 1984, and 8,007 yuan in 1988. This figure was 7.1 times higher in 1988 than in 1978, and 2.2 times higher than in 1984. The price for plastic sheeting which peasants use as mulch was 3,700 yuan per ton between 1978 and 1984, but it had doubled to 7,400 yuan per ton by 1988. Prices for other agricultural means of production rose by 55.9 percent between 1978 and 1988, and by 37.6 percent between 1984 and 1988. Continually rising prices for the means of production counteracted the benefits of raised grain prices.

*2. Grain prices are too low and are badly out of line with prices for other agricultural products.* In recent years, as the prices for most agricultural products have been decontrolled and the scope of market-regulated prices has broadened, prices have risen sharply and a pronounced conflict with state procurement prices has arisen. Statistics from the Provincial Statistics Bureau indicate that if we take 1984 as the base figure for the comprehensive average of actual sales by peasants throughout the province, the general price index in 1988 had risen by 70.7 percent. Flue-cured tobacco had risen by 97 percent, beets had more than doubled, fruits had doubled, aquatic products had risen by a factor of 2.4, meat and eggs had risen by a factor of 2 to 3, oils had risen 51.5 percent, and cotton had risen 30 percent. During the same period, however, grain procurement prices only went up 22 percent, or 43 percent if you count the portion sold at market prices. In 1984, 100 kilos of corn could be traded for 47 kilos of apples, but this figure dropped to 25 kilos by 1988. Whereas 100 kilos of corn could be traded for 26 kilos of mullet, they could only be traded for 4 kilos by 1988. Grain prices are

too low, and are especially out of balance in relation to sideline products, whose prices have been decontrolled.

*3. The peasants bear a heavy grain procurement burden, and they have not gotten any real economic benefits from the "dual track" price system.* The state reformed the unified grain procurement system in 1985 and implemented a contract procurement system. Any grain harvested over and above contract quotas can be sold on the market at market prices, thereby increasing the income of grain farmers and making up for excessively low procurement prices. However, because grain contract quotas in Liaoning Province are rather high (2.5 times higher than the national average), and because grain production has not risen in recent years, peasants have had basically nothing to sell after fulfilling contract quotas. The highest annual grain production achieved in Changtu County, a production base for commodity grain, was 1.52 billion kilos, of which 890 million kilos (58.4 percent) went to satisfy contract procurement quotas in which there was a shift from negotiated prices to state prices, and 420 million tons (27.6 percent) were kept by peasants for personal consumption or fodder, so only 14 percent of the entire county's grain could be sold on the market. Some villages and townships with especially high quotas even had to buy grain at market price to fulfill procurement quotas. Because contract procurement quotas in Liaoning Province are very high, peasants here have received almost no benefit from the "dual track" system.

*4. The gap between contract procurement prices and market prices is widening.* In recent years, state contract procurement prices for grain have risen very little, while market grain prices have jumped sharply upward, leading to a wider and wider gap between state and market prices. Statistics indicate that market prices per kilo of rice and corn throughout have been as follows:

	1984	1985	1986	1987	1988	1989, January-August	1989, September
Rice (yuan)	0.74	0.76	0.83	0.97	1.18	1.76	1.87
Corn (yuan)	0.27	0.32	0.38	0.41	0.43	0.62	0.74

Prices for these two grains rose, respectively, by factors of 2.6 and 2.7 between 1984 and September 1989. The gap between state and market prices for rice in 1984 was 20 percent, and had reached 74 percent by 1988, and the gap between state and market prices for corn in 1988 was 94 percent. In 1989, in order to reduce the gap between contract procurement prices and market prices, the state increased contract procurement prices for paddy rice by 0.12 yuan per kilo, and by 0.02 yuan per kilo for corn. However, because circulation channels for grain are in chaos and various parties have gotten involved in grain trading, market prices for grain have climbed higher and higher, causing the gap between state and market prices to further widen. Market prices for rice and corn are now more than double state procurement prices. Because the gap between contract procurement prices and market prices is too large, government organs at various levels

have had no choice but to use administrative measures to force peasants to fulfill contract quotas. Relations between the state and peasants are quite tense, which has also affected the fulfillment of contract quotas.

*5. Income is lower in agriculture than in other industries, and income from grain planting is lower than from the cultivation of other crops.* Ever since the readjustment of agricultural structure, the development of various types of commercial activities, and the increase in the number of ways for peasants to get rich, many peasants have begun to engage in secondary and tertiary industries. The result is that the gap between income from other types of labor versus that from planting crops has grown too large. For example, a study in Jin County showed that average net income in the transportation sector in 1988 was 3022 yuan; from wood products, 3092 yuan; from

sideline occupations, 3901 yuan; and from retail, restaurant, and service industries, 4801 yuan. Average net income from crop planting, however, was only 674 yuan. The figure for transportation was 4.5 times higher than that for crop planting, while it was 5.8 times higher for sideline occupations and 7.1 times higher for retail, restaurant, and service industries. Statistics on agricultural production costs indicate that average profit per mou of grain planted throughout the province in 1988 was 79.48 yuan, while profits per mou were 9.5 times higher for apples, 7.2 times higher for vegetables, and 3.3 times higher for cash crops. Profit/cost ratios for grain planting were also lower than for other crops. Low income from grain planting has shaken the confidence of some peasants in their ability to get rich by planting grain. They say that they don't make much money by planting grain, and the work is tiresome. Thus, in some areas the phenomenon of abandoning agriculture in favor of commerce or industry has become quite serious.

In summary, as today's rural commodity economy grows daily more robust, peasants must consider the ratio between inputs and returns every time they undertake any type of economic activity. Under the current circumstances, in which the price and value of grain are so seriously out of line, as peasants have discovered the low returns from planting grain they have switched to production of goods with high returns. The situation with regard to grain production has become a matter of "you've got policies, I've got ways around them." Land area under cultivation has decreased, peasants have deliberately slacked off in their work, and they have cut inputs. If we do not resolve the problem of the peasants' lack of enthusiasm for planting grain, the potential danger is great.

## II

In order to reduce the gap between state grain procurement prices and market grain prices and to raise the enthusiasm of peasants for planting grain and fulfilling grain procurement quotas, it is absolutely necessary that we raise grain procurement prices. How far should these prices be raised? Inasmuch as planting grain is the primary rural occupation, grain prices should be brought into balance. A major reform should be carried out in order to bring the price and value of grain gradually into line. Only by doing this can we promote grain production and move on to a higher stage. However, grains are special commodities closely linked with the well-being of the state and the people. They are the core of all agricultural products, and they play a role in assuring social and economic stability. Grain price fluctuations inevitably affect prices for all agriculture-related products, touching off a series of chain reactions. In particular, after raising prices for state grain procurement, the state must use up a large proportion of its funds to make up the difference. The nation's macroeconomic environment has yet to see any major improvement, and fiscal revenues are very tight. Under these circumstances, it will be very difficult for the state to come up with these funds. The state has set itself the goal of fundamentally

completing the task of improvement and rectification and bringing the overall price level under control within three years, which is an indication that the conditions do not exist for achieving the target grain price in a single stroke. However, if we take it a little bit at a time, small adjustments will do nothing to alleviate the imbalance between supply and demand for grain. We believe that the way to resolve the current problem in agriculture is to strengthen agricultural infrastructure. The state must continue to offer concessionary policies to agriculture. It must achieve its production plans for agriculture at every level, and resolutely preserve the central position of grain in agricultural production. By adopting measures to support and encourage grain production, we will make peasants really feel that producing grain can yield a profit. We believe that agricultural price reforms next year should emphasize the key aspects. We must adjust grain prices appreciably upward. Particularly in Liaoning Province, where the disastrous year of 1989 caused a sharp drop in agricultural production, it is especially necessary that we raise grain procurement prices in order to preserve agricultural productive forces and assure the recovery and development of agricultural production. We believe that conditions in Liaoning Province require that the weighted level of procurement prices for the five grains (corn, Chinese sorghum, millet, paddy rice, and wheat) should be raised by no less than 20 percent. The degree of the price rise should differ depending on the grain. Corn plays a decisive role in Liaoning Province's grain production. It accounts for 63 percent of all land under cultivation, 53 percent of production, and 63 percent of all commodities sold to the state. Developing corn production is closely linked to the effort to increase effective social supply, stabilize the market, and stabilize prices. Although procurement prices have been raised in recent years, it has not offset increased production costs. Price relations between corn and paddy rice are not rational either. Price rises for corn should be made greater by an appropriate degree. Paddy rice is one of Liaoning Province's great advantages, and it is one of the major types of grains which must be used to improve the province's grain supply. Because procurement prices for this crop have been appropriate for the past few years, economic returns have been relatively high and paddy rice production has developed relatively quickly. Prices for paddy rice were raised by a relatively large amount again in 1989, and its price relative to that of corn rose from 1.46 catties to 1.73 catties. Economic returns from paddy rice are more than double those from corn, which is conducive to the expansion of paddy rice production. However, some localities have blindly changed dry fields to paddy fields without regard to water resources and natural conditions, which has led to reduced grain production. In order to achieve a rational readjustment of grain crop planting structure, and in order to spur development in localities where favorable conditions exist, procurement prices for paddy rice should be raised by an appropriately smaller degree. Soya beans are one of the major crops which Liaoning Province intends to develop. Soya bean production has been declining in recent years, but uses for soya beans have multiplied,

and the gap between supply and demand has grown wider and wider. The province has basically been buying soya beans at negotiated prices from other provinces to make up for the shortfall, but the procurement price for soya beans has not changed in years, so it has dropped relative to corn prices from 2.13 catties in 1985 to 2.04 catties. In order to develop soya bean production, the provincial government has decided to implement non-price subsidies (0.12 yuan per kilo), but economic returns from production are still very low. Therefore, the procurement price for soya beans should be raised by a relatively large degree.

For edible oil prices, we should raise prices by about the same degree as we raise corn prices even as we maintain rational price relations between edible oils and grains.

In order to overcome stagnant grain production in Liaoning province as soon as possible and to move on to a higher stage, the state should build upon the foundation laid by grain price reforms. As grain production costs rise and prices for related products fluctuate, the state should raise prices for grains which it procures. The state must assure that planting grain will yield economic returns, and it must stabilize peasants' attitude regarding production.

Of course, with the large discrepancy between state and market prices under the dual track system, peasants will also benefit economically if we reduce procurement quotas and increase the amount of product peasants sell on the market, and grain production would be stimulated. If we are to preserve the continued development of grain production, we must adopt a set of coordinated measures. We must strengthen development of agricultural fields, improve production conditions, and vigorously promote new agricultural technologies. We must control the price of agricultural means of production. We must offer concessionary policies to peasants who sell grain to the state. We must lighten the burden borne by peasants. We must devote special effort to developing operations that are run on an appropriate scale. In particular, we must take pains to strengthen macroeconomic control and microeconomic management of grain markets. We must also use such economic levers as taxes to mitigate excessive gaps between the income derived in rural villages via grain planting and income from other occupations. If we base our predictions upon the basis of the current level of productive forces, grain production will not increase at a rapid rate in the near future, but the consumption level will still rise every year, and market supply and demand will remain in tense equilibrium. Especially since the disaster of 1989 in Liaoning Province, imbalances between supply and demand for grain have been particularly pronounced. The most pressing task now is to earnestly improve and rectify circulation channels for grain and earnestly implement unified management of major grains and the supply and marketing sector. We must also do a good job of setting up grain markets, which must fully play their role as circulation channels. We must strengthen macroeconomic control and regulation, and use economic and administrative

means to set up grain markets, stabilize market grain prices, and prevent grain prices from undergoing large fluctuations.

In addition, unified grain prices have remained unchanged since 1965, a total of 25 years. The gap between procurement and marketing prices has continually widened, the degree of grain price distortion has grown more and more serious, and the most precious grains have come to be called "worthless commodities." Currently, 0.5 kilos of rice sell for 0.185 yuan, and the state subsidy is 0.25 yuan. People only have to make a cursory comparison to discover that the most inexpensive commodities are grain at par value and products made from grains. China has a large population and little land, and it is unlikely that the tension between supply and demand for grain will be alleviated any time soon. Current grain procurement and marketing policies are not compatible with China's actual conditions. They have suppressed grain production and encouraged wastage of grain. State subsidies are growing larger and larger, and the state's fiscal burden is growing heavier and heavier. Only by acting upon the law of value to bring current grain policy into balance can we encourage production and discourage waste. Because the problem is too old and conflicts are too large, it would be unrealistic to expect to achieve the proper price level in a single stroke. We feel we can carry forward step by step. The first step should be to convert grain prices gradually one year to the next from a state-designated price to negotiated prices for all grain except for urban residents' grain rations and military grain. The second step would be to gradually bring prices for urban residents' grain rations into balance. Some of the selling prices could be raised, and hidden subsidies changed to overt subsidies. In this manner we will strengthen the concept among consumers that grain is to be cherished, and it will facilitate efforts to suppress grain consumption and reduce grain wastage. At the same time it will play a positive role in the development of grain production.

#### **Shandong Reports on Animal Husbandry**

*SK0110090590 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 30 Sep 90*

[Summary] A positive trend of steady development has appeared in Shandong's animal husbandry. By the end of June this year, the province had 6.86 million large animals, 16.69 million pigs, and 280 million poultry. In the first half of this year, its meat output totaled 970,000 tons, milk output 140,000 tons, and sheep wool output 15,000 tons.

#### **Shandong Fisheries Rank First in Nation**

*SK0510074890 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 4 Oct 90*

[Summary] Since the founding of the PRC, the people in coastal areas of Shandong Province have worked hard to develop inshore and offshore fishing under the leadership of the party and the government, thus bringing

about an earthshaking change to the 3,000-meter-long seacoast. At present, the provincial sea fisheries output has risen from 90,000 tons before the PRC's founding to 1.4 million tons, ranking first in the country.

In the years just after liberation, there were only some tattered wooden boats in the province's seacoasts that caught fish and shrimp in coastal waters. Now, there are over 30,000 advanced motor-driven ships operating in the Bo Hai, Huang Hai, and Dong Hai fishing grounds. Meanwhile, deep-sea fishing bases have been established in the United States, the Soviet Union, Indonesia, and the Gambia.

Over the past 41 years, the province's sea fisheries have undergone a historical change of from only amounting to fish catching to building sea farms. After the founding of the PRC, the province was the first to successfully develop the artificial skill of breeding kelp, prawns, and scallops. It built the country's largest kelp, prawn, and scallop breeding bases on coastal waters. In 1989, the provincial output of sea water breeding products reached 500,000 tons.

Sea fisheries has now become a decisive economic pillar of the province, the coastal areas in particular. In 1989, the provincial sea fisheries output value reached around 5 billion yuan, accounting for 10 percent of the province's total agricultural output value.

#### **Shandong Beer Output, Exports**

SK0310054090 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 2 Oct 90

[Summary] During the Seventh Five-Year Plan period, Shandong Province has achieved considerable development in beer production. Its annual output has increased from 280,000 tons in 1985 to 800,000 tons at present, showing a 1.8 fold increase. At present, the province has

60 breweries, whose output has ranked the province first in the country in this regard over the past five years. They have handed over 840 million yuan of profits and taxes to the state during the period. The province's total annual volume of exported beer has reached 58,000 tons and its annual income earned in this regard has reached \$25 million.

#### **Sichuan Grain Area**

40060001B Chengdu SICHUAN RIBAO in Chinese  
12 Sep 90 p 1

[Summary] The rice area in Sichuan Province this autumn exceeds 46 million mu and the corn area exceeds 25 million mu.

#### **Yunnan Grain Procurement Prices**

40060002A Kunming YUNNAN RIBAO in Chinese  
9 Sep 90 p 1

[Summary] This year Yunnan Province has set guaranteed prices for negotiated purchases of grain; the negotiated price for rice is 120 yuan per 100 kilograms and the negotiated price for corn is 70 yuan per 100 kilograms. Yunnan has reduced grain purchases at negotiated prices from other provinces.

#### **Yunnan Hybrid Rice Seed Area**

40060002D Kunming YUNNAN RIBAO in Chinese  
25 Aug 90 p 2

[Summary] In 1989 the hybrid rice seed area in Yunnan Province exceeded 13,100 mu, a 128 percent increase over 1988, seed output exceeded 1,273,000 kilograms, and the per mu yield was 96.6 kilograms. At present, the seed area exceeds 26,500 mu and estimated seed output is over 2,650,000 kilograms.

### Purge Reported Within Literary Circle

90CM0295A Hong Kong KAIFANG [OPEN] in Chinese  
No 42, Jun 90 pp 17-19

[Article by Lu Shi (0712 6108): "Square Accounts With the Literary and Art Circle After the Autumn Harvest—the CPC's Loosening Up Politically Is Only a Facade"]

[Text] Since the beginning of this year, the CPC has released three groups of democracy movement personages who were arrested before and after the 4 June incident of last year. By doing so, the CPC seems to be creating an atmosphere of loosening up. But in the ideological sphere, especially in the literary and art circle, the CPC has not only tightened controls, but has also thoroughly exposed and criticized liberal intellectuals and the trend of liberalization.

### No Dates Are Set for the Release of Most Arrested Writers

After last year's 4 June incident, the CPC arrested a large number of intellectuals, including famous writers Wang Ruowang [3769 5387 2598], Wang Peigong [3769 1014 0361], Ye Wenfu [2814 2429 4395], Liu Xiaobo [0491 2556 3134], Dai Qing [2071 2532], Ke Yunlu [2688 0061 6424], Zheng Yi [6774 0034], Zhao Yu [6392 3842], and Zhang Boli [1728 0130 4567]. We have only heard that Dai Qing, who has a certain background, has been released as of today. This shows that the CPC has not loosened any control of the literary circle.

Except for Beijing, Sichuan is the province where most writers were arrested. According to insiders, many members of the Sichuan Provincial Academy of Social Sciences were arrested last year. In addition, about 10 writers and poets in Chengdu were also arrested. During March and April this year, some modern poets organized and compiled a book called *A Collection of Poems on June 4th* to commemorate the 4 June incident. They also made a tape of poetry readings to commemorate those who died during the 4 June incident. Unfortunately, it was discovered by the CPC, resulting in the arrests of at least seven or eight people. Many others went into exile. Meanwhile, Zhang Li [1728 0500], director of the Publishing House of the Sichuan Provincial Academy of Social Sciences, and Li Jiawei [2621 0857 3837], editor of the same publishing house, were sentenced to one and three years in prison, respectively, by the Chengdu court for publishing the *Complete Biography of Du Yuesheng* which was considered as a "reactionary book" by the CPC.

Backed by Li Peng, He Jingzhi [6320 2417 0037] originally planned to get a few more famous personages of the literary and art circle, including Wu Zuguang [0702 4371 0342], Huang Yongyu [7806 3057 3768], Huang Dizi [7806 4564 1311], and Yang Xianyi [2799 2009 4135]. He did not go ahead with it only because Li Ruihuan thought that it might hurt the atmosphere of gradually loosening up to the outside and stopped him. But because Wu Zuguang criticized He Jingzhi before He

Jingzhi stepped down in 1985, He Jingzhi has always hated Wu and definitely will seize an opportunity to retaliate later.

### The Literary and Art Circle Suffers Depression

In fact the literary circle was already in a slump with famous writers either fleeing or refusing to write for the literary circle controlled by extreme leftists.

Even so, the CPC did not forget about investigation and rectification. It had already determined that almost every magazine and every publishing house was guilty. It wanted to investigate all of them, causing everyone to be nervous and scared. Of 239 books sent by four provinces and municipalities to the Press and Publication Administration to be banned at the end of last year, 166 books, or 69 percent of all books reported, were found not under the categories of books to be banned. This also happened in their attempt to ban newspapers, magazines, and publishing houses. First, everything was banned. Then, everything was okay. Many newspapers that were originally closed down in Guangdong were reopened recently, but their vitality was sapped.

In the second half of last year, in order to show that they were with the CPC Central Committee, some literary periodicals in Beijing printed additional loose pages of poems and short stories praising the riot police. Upon receiving such periodicals, subscribers tore them up to give vent to their spite and pledged to stop their subscriptions this year. Major national literary periodicals which used to have circulations of several hundred thousand are losing their subscribers every day due to the constantly changing political climate of Mainland China. The number of circulations dropped suddenly especially after the 4 June incident. Some have dropped to only 10,000 or even several thousand. Still worse, some provincial and municipal magazines have only several hundred subscribers left.

Ma Feng [7456 3536], newly appointed secretary of the CPC Committee of the China Writers Association, who is a noted leftist, was recently forced to admit in public: "The literary and art circle is now kind of slow." Two literary periodicals in Beijing—BAOGAO WENXUE [REPORTING LITERATURE] and YANHUANG ZISUN [CHINESE DESCENDANTS]—have been closed down during the political purge. The Shanghai Literary and Art Publishing House recently sponsored its first novel award. But for the same reason, there was no winner of the first award. Even for the second award, they had to use a historical novel called *Anhui Incident* to fill the blank.

### People Are Used To Draw Lines in the Great Purge of Literary Circle

Facing such a situation, the CPC is still closed to the outside and carries out suppression at home, thus causing many stupid mistakes. When the Guangdong Writers Association meets, Hong Kong's leftist writers are always invited to attend. But at a recent members'

representatives meeting, not a single Hong Kong writer was invited. This shows that the CPC does not trust even leftist writers anymore for fear that they may spread scandals. On 28 April WENYI BAO published a lengthy article, more than half a page long, to criticize the issue of "pluralization." In two of its footnotes, Taiwan's CHUNG KUO JIH PAO was identified as a Hong Kong newspaper. What a joke!

The earliest such criticism in the literary and art circle that paid no attention to facts is a commentary called "Freedom and the Loss of Emphasis" written by leftist Wei Wei [7614 1550] under the assumed name of Yang Yu [7122 7183] to criticize Wang Meng which was published in WENYI LILUN YU PIPING [THEORY AND CRITICISM OF LITERATURE AND ARTS]. Recently, because Zhao Yu was arrested, his book *A Great Power Dream*, which reports on China's sports and enjoyed great popularity a year ago, was dug out to be criticized. *China in the Mountains*, a collection of economic essays written by Zhongshan University scholar He Bochuan [0149 0590 0278] which caused great repercussion for some time, was recently subjected to criticism because its author was condemned as a liberal element. ZHONGLIU [MIDSTREAM] magazine, in the form of reporting literature, recently criticized Liu Xinwu [0491 1800 2976], former chief editor of RENMIN WENXUE [PEOPLE'S LITERATURE], for publishing Ma Jian's [7456 1696] short story, "Hurting Tibet People's Feelings," in 1987. The magazine also published commentaries in the same issue. WENYI BAO reserved over a whole page to reprint the complete article.

#### Deng Liquan Wages "Protracted Warfare" Against Bourgeoisie

In recent months, in documents, meetings, and articles the CPC criticized that bourgeois liberal ideas were allowed to spread unchecked four times during the 10 years of reform and opening up. It emphasized that liberal ideas must not be allowed to spread unchecked for a fifth time and that the trend of liberalization must be thoroughly criticized.

In the beginning of 1987, after Hu Yaobang's fall, Deng Liquan, Xiong Fu [3574 1788], Chen Yong [7115 8673], Lin Mohan [2651 7817 3211], Cheng Daixi [4453 0108 3556], and He Jingzhi planned to go all-out as they are doing today. They held an oath-taking rally in Zhuozhou, Hebei, but later they were criticized by Zhao Ziyang. They took this to heart and repeatedly raised this old issue at the end of last year and in the beginning of this year to affirm that rally and find fault with Zhao Ziyang.

For this purpose, they recently held another "forum on literary and art ideas" in Baoding, Hebei, which was sponsored by the Chinese Federation of Literature and Art Circles and the China Writers Association, to remember the good old days. Ma Feng said that the forum had achieved the expected results. Their press

release was entitled "Responsibility Is Heavy and Fighting Has No End." This shows that they knew that they faced many problems, but they were determined to fight the trend of the time to the end.

Deng Liquan, who was behind the scene, agreed completely with them. He is working hard on the research of anti-bourgeois liberalization theories. They recently started the publication of ZHONGLIU in the literary and art circles and of DANGDAI SICHAO [CURRENT IDEOLOGICAL TRENDS] in the theoretical circle. Deng Liquan recently published an article entitled "Philosophical Notes on the Study of 'On Protracted Warfare'" in the latest issue of DANGDAI SICHAO to provide theoretical bases for his followers to wage a protracted war against the ideological trend of liberalization.

#### New and Old Accounts Are Settled Together

While many literary and art conservatives who were forced to step aside years ago are returning to power, past "humiliation" is being revived and many year-old accounts are being dug out to be settled.

At the Fourth Congress of the China Writers Association in early 1985, leftist leaders of the literary and art circles such as He Jingzhi, Liu Baiyu [0491 4101 5038], and Huang Gang [7806 0474] lost the election and took flight. After that, in order to promote an across-the-board reform, General Secretary Hu Yaobang solicited opinions from all areas of literary, art, and intellectual circles. Zhu Houze [2612 0624 3419], then director of the Propaganda Department, and others recommended to the Central Secretariat Liu Zaifu, Liu Xinwu, and Li Zehou [2621 3419 0624], who gave oral and written opinions on several reform issues during their talks with secretaries of the Secretariat Hu Qili and Hao Jianxiu. Especially they made the proposal of "loose, tolerant, and generous" attitudes toward literary, art, and academic issues. The Secretariat printed their opinions into reference materials and distributed them to be read by high-ranking leaders at and above the level of secretary, thus mobilizing the efforts to carry out reform and open up at that time.

At the time, Hu Qiaomu and Deng Liquan were very unhappy about this. During a high-level function in early 1986, Deng Liquan ran into Liu Xinwu and said to him in a strange tone, "Liu Xinwu, you are very famous lately!" This refers to the above-mentioned event.

Under the policy of "loose, tolerant, and generous" attitudes, China's literary, art, and intellectual circles enjoyed the golden age of ideological liberation in 1986. But after Hu Yaobang's fall in early 1987, the policy of "loose, tolerant, and generous" attitudes was criticized and everything fell into a slump. Fortunately, Zhao Ziyang stopped the criticism in time and allowed the policy of "loose, tolerant, and generous" attitudes to continue for a limited time.

Today, Hu and Zhao have fallen; then leftist minister He Jingzhi has resumed power at the central Propaganda



Department and the Ministry of Culture. Instructed by Hu Qiaomu and Deng Liqun behind the scene, He Jingzhi and his assistants recently went all out to slash at these old issues, criticizing the policy of "loose, tolerant, and generous" attitudes" for causing bourgeois liberalization to run rampant in Mainland China. The three major characters who had participated in the proposal of the policy of "loose, tolerant, and generous attitudes"—Liu Zaifu, Liu Xinwu, and Li Zehou—were all openly criticized by name in all documents and newspapers. Liu Zaifu has fled the country and they cannot do anything about him, but Liu Xinwu and Li Zehou have been unfortunately subjected to persecution. Liu Xinwu, the "father of the literature of sorrow," had been extremely bold and rode the literary stage for many years. Before and after the enforcement of martial law in Beijing last year, he led the entire staff of RENMIN WENXUE in several street demonstrations. But now, according to Beijing sources, after he was persecuted (fired from his job, expelled from the party, put under house arrest, and forced to write confessions and self-criticisms), Liu Xinwu is growing gray and extremely depressed.

#### The Claws of Persecution Extend Overseas

After the 4 June incident, a large number of elites in literary, art, and intellectual circles of Mainland China cast aside the current regime of the CPC and went into exile overseas. Some of them fled the country; others went abroad before the 4 June incident and stayed abroad afterward. All of them have openly accused the CPC regime.

The CPC is furious. For this, the CPC's central Propaganda Department issued two documents. One was to determine the political nature of these literary and art personages in exile and categorized them basically as "counterrevolutionaries," "traitors," and so on.

Another document was issued to all newspapers, magazines, and publishing houses in China, forbidding them to publish the works of a dozen fugitive writers, including Liu Binyan [0491 6333 7159], Liu Zaifu, Xu Gang [1776 0474], Zu Wei [4371 1983], Kong Jiesheng [1313 2212 3932], Dai Houying [2071 0624 5391], Su Xiaokang [5685 2556 1660], Su Wei [5685 3555], A Cheng [7093 1004], Lao Gui [5071 7607], Bei Dao [0554 1497], and Lao Mu [5071 2606]. The most innocent one is Ma Jian, who emigrated to Hong Kong at the end of 1986. He was also implicated and put on the list. Recently he was openly criticized by name in the magazine WENYI LILUN YU PIPING. Neither did he participate in last year's demonstration nor did he say anything in public to criticize the CPC. He even announced in a newspaper statement that he did not join the association of fugitive writers and poets, but he still cannot clear his name.

#### Chen Ruoxi Is Forbidden To Enter China

The CPC's overseas backstage manipulators recently extended their claws to much celebrated Chen Ruoxi [7115 5387 2569].

Chen Ruoxi used to be a target of the CPC's united front work. She was very appreciated and respected. In the later period of the Cultural Revolution, Chen moved to Hong Kong from the mainland and wrote many highly acclaimed novels to expose the Cultural Revolution, thus becoming an overseas vanguard and famous writer of the "literature of sorrow" of Mainland China.

In recent years Chen Ruoxi did many good things for liberal intellectuals on the mainland. For instance, she pleaded to Hu Yaobang on behalf of Bei Dao when he was banned from leaving the country in 1985. She is quite popular in the intellectual circles of Mainland China.

After last year's 4 June incident, Chen Ruoxi wrote about 10 articles to condemn the brutal practice of the current regime of the CPC and openly criticized scholar Xiong Jie [3574 3775] for defending the CPC's massacre. In September 1989, Chen Ruoxi received an invitation from the CPC, asking her to go back to Beijing to see for herself the "real situation" of "quelling counterrevolutionary riots." She refused to go back to be brainwashed. Instead, at the end of 1989 she started to found a literary magazine to provide a space for mainland writers who were in exile to publish their works. GUANG CHANG started publication in April 1990 in Chicago in the United States, with Chen as its publisher and mainland writer Dai Houying as its chief editor. Dai Houying recently returned to the mainland because her mother was very ill in Shanghai; therefore, beginning with the second issue, Kong Jiesheng, a mainland writer who fled to the United States, will take over the position of chief editor.

Since Chen Ruoxi is really involved with fleeing mainland writers, she is now included in another list of the united front work of the CPC. Chen originally planned to return to Beijing at the end of June 1990. But two weeks after she applied for a visa, she still had not heard from the Chinese Consulate. First, they spoke evasively. Later, they said Beijing did not agree to give her visa.

According to the relay of Lin Liwen [2651 7787 7291], responsible person of the Taiwan Democratic Self-Government League, Beijing refused Chen a visa because she published GUANG CHANG magazine and struck the pose of "long-term confrontation."

#### Conservatives Fail in the Fu Tianhong Incident

That the evil backstage manipulator of the CPC reaches its claws overseas is also reflected in the Fu Tianhong [0265 1131 5725] incident (reported in our last issue—editor's note).

But in the Fu Tianhong incident, conservative scholars recently failed completely.

Through its cultural spies in Hong Kong, the CPC gathered information on Fu Tianhong and sent it back to the mainland. Based on such information, the CPC concocted a "reader's letter" and published it in WENYI BAO on 14 April, calling Fu Tianhong a liar. Its intention was to warn overseas writers: If you don't listen, I will give you a hard time at home. It also threatened inland publishing houses and writers not to contact and cooperate with overseas writers who are not welcomed by the authorities.

However, that reader's letter of WENYI BAO did not scare any one. Instead, it caused mainland writers and editors to become indignant and criticize the practice of WENYI BAO. The May issues of XING XING [STARS], TEQU WENXUE [LITERATURE OF SPECIAL ECONOMIC ZONES], and SHAN HUA [MOUNTAIN FLOWERS] continued to publish Fu's works. Still more, Yang Guangzhi [2799 0342 3112] of Guangdong Huacheng Publishing House, who was planning to publish a collection of Fu Tianhong's poems, wrote a letter to WENYI BAO to clear Fu Tianhong's "crimes." Running out of options, WENYI BAO published this letter on 19 May.

According to insiders in Beijing, WENYI BAO was completely reshuffled a month ago and replaced with all leftists. Directing behind the scenes was Chen Yong, Deng Lique's pawn. This Marxist literary and art theorist who could not wait to criticize Liu Zaifu in HONGQI [RED STAR] in 1986 produced a "Fu Tianhong" incident as soon as he resumed power this time. He thought it was going to be a success. But little did he know that the reaction of the literary and art circle would be so strong that he was thwarted.

#### Hu Feng's Wife Directly Rebukes Lin Mohan

Another example of the literary and art circle striking back at conservatives is that Lin Mohan was blasted by Hu Feng's [5170 7364] wife Mei Zhi [2734 1807].

After last year's 4 June incident, the literary and art circle was purged for its collective involvement in the democracy movement. Old leftist leader Lin Mohan resumed power (as secretary of the party group of the Federation of Literary and Art Circles) and became extremely active. With a suddenly revived itch for publishing, he sent his scripts everywhere. Just as they founded the leftist magazine WENYI LILUN YU PIPING during the antibourgeois movement in 1987, this time they founded ZHONGLIU, which means mainstay, as in the phrase a firm rock in midstream. In the second issue of this year, Lin Mohan published four letters which Mao Dun [5403 4163] wrote him after the Cultural Revolution and asked several papers and journals to reprint them. His intention was not to commemorate Mao Dun. Instead, he wanted to use Mao Dun to prove that his leftist ideas were correct. Most people of the literary and art circle despise this.

At the end of 1989, this old leftist, who climbed to the high post in the literary and art circle by condemning Hu

Feng, reopened Hu Feng's old case which had already been "further redressed" and wrote an article called "Before and After the Hu Feng Incident" for XIN WENXUE SHILIAO [NEW HISTORICAL MATERIALS OF LITERATURE]. His intention was to "knock down" Hu Feng once again (Hu Feng had already been criticized to death, but they still would not let him off).

However, times have changed. The barrel of a gun alone can no longer hold down the people. Most people of the cultural circle in Mainland China are still brave enough to respect the facts. Furious at Lin's article, Hu Feng's widow Mei Zhi wrote a letter and directly criticized Lin Mohan's views for deliberately distorting historical facts and misinterpreting Hu Feng's article. XIN WENXUE SHILIAO's first issue of 1990 had the nerve to publish this letter. This drew wide applauses from the literary and art circle and made Lin Mohan extremely embarrassed.

#### Campaign Against Corruption Outlined

90CM0392A Shanghai MINZHU YU FAZHI  
[DEMOCRACY AND THE LEGAL SYSTEM]  
in Chinese No 132, 12 Jul 90 pp 8-9

[Article by Zhang Suofei (1728 2076 5481): "Deputy Procurator General Zhang Siqing Says, 'Persist in the Campaign Against Corruption and Bribery'"]

[Excerpt] [passage omitted] A few days ago this reporter went to the Supreme People's Procuratorate to inquire about issues that concern the people, such as more honest government and the punishment of corruption. Deputy Procurator General Zhang Siqing [1728 1835 0615] received this reporter and, when he was interviewed, said:

"In November 1988, the Supreme People's Procuratorate, in accordance with the provisions of party Central Committee directives and national laws, adjusted our work plan without delay and determined that the anti-corruption and antibribery struggle would be the primary task in attacking economic crime and would be the focus of the work of procuratorial organs. In 1989 procuratorial organs throughout the country accepted 116,763 corruption and bribery cases, and 58,926 cases were filed for investigation. Over 13,000 of these were serious cases involving 10,000 yuan or more, and over 870 cadres at the county or department level and above were involved. In the entire year a total of 19,406 people were prosecuted in the people's court in corruption and bribery cases and a total of 482.86 million yuan in goods and money was seized in corruption and bribery cases. From January through May of this year, according to incomplete statistics, a total of 44,567 corruption and bribery cases have been heard and 23,416 cases have been filed—12,740 corruption cases and 10,676 bribery cases.

"Throughout the anticorruption and antibribery struggle the procuratorial organs have persisted in mobilizing and relying on the people and have conducted special

tasks in conjunction with the mass line. All of the local procuratorates have established reporting centers to receive reports from the people on corruption, bribery, and related cases, and to examine and process the cases. From July 1988 to the end of 1989, procuratorial organs throughout the country received more than 408,000 leads from people's reports on corruption, bribery, and related cases. When leads from other reports are added to this, it comes to a total of more than 747,000.

"Last 15 August, the Supreme People's Procuratorate and the Supreme People's Court issued the 'Public Notice on the Requirement for Criminal Elements Receiving Bribes or Engaged in Corruption or Speculation and Profiteering To Turn Themselves in Within a Limited Time.' Within the two-and-one-half month time limit, people reported over 133,700 leads on corruption and bribery and 25,544 people confessed their crimes of corruption or bribery to the procuratorial organs. With the addition of other criminal elements it came to 36,171 people. Procuratorial organs at every level conscientiously verified and processed these cases in accordance with the provisions of law and the 'notice.'

"Procuratorial organs at every level while thoroughly carrying out the struggle against corruption and bribery, also fiercely investigated and processed such 'infringement of authority' and malfeasance crimes as taking bribes and bending the law, fraudulent practices for personal gain, extorting a confession by torture, unlawful custody, dereliction of duty, and accidents due to serious negligence. In 1989, China's procuratorial organs filed and investigated 15,298 such cases. Over 2,000 of these were serious cases involving personal injury or death and serious economic loss. They also investigated the criminal responsibility of 60 cadres at the county or department level and above. Like the struggle against corruption and bribery, these cases play an important part in making the government more honest and punishing corruption.

"The corruption, bribery, 'infringement of authority,' and malfeasance cases handled by procuratorial organs exhibited these principal characteristics:

First, most criminals in bribery cases are people who manage financial affairs and have direct control of personnel in state enterprise units and collective economic organizations such as factory directors, managers, and finance officers. The principal method in crimes of corruption is altering accounts or certificates. Amounts in some corruption cases go as high as a few million yuan or more than 10 million yuan. Second, the vast majority of bribery cases involve people who administer people and finances or exercise administrative authority over some aspect of society. They rely on their authority to get bribes. Bribery crimes also are strung together. Some people forge various key links to accomplish their objective, often using money to pave the way and offering bribes to several people. So, frequently, in handling one case we are led to a number of cases. Third, we often have one person committing several crimes. Fourth,

'slush funds' and unaccounted for funds in a great many units become the breeding ground for such crimes as corruption and bribery. Fifth, the people report an increasing number of situations where there is an enormous amount of property of unclear origin. There are a number of employees of state organizations whose income and expenditures are obviously inconsistent. Their legal income is not great, but they have an unusually extravagant lifestyle. Procuratorial organs have begun to investigate this type of criminal case. Sixth, a number of cases of taking bribes to bend the law take place among personnel of basic-level judicial and law enforcement departments. Seventh, most crimes involving dereliction of duty are caused by serious bureaucracy. Eighth, most 'infringement of authority' cases occur among workers in basic-level law enforcement departments and popular grassroots organizations. A great many of these result from the use of simple brute force in carrying out their official activities. Ninth, most accidents caused by serious negligence occur in mining, capital construction, transportation, and other such departments. These cases are especially numerous in collective and individual enterprises." [passage omitted]

#### Decrease in Postgraduate Students Explained

90CM0302A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 6, 10 Jun 90 pp 16-17

[Article by Yin Xiangjun (3009 0686 6511), Beijing University Branch: "The Joys and Sorrows, Promotions and Demotions of Graduate Students Taking Admission Examinations"]

[Text] Data from the No. 1 Office on Graduate Education under the State Education Commission's Department of Higher Education reveal a great drop in the last two years in the total number of university graduates taking examinations to enroll for graduate work.

Take the situation in the Beijing area as an example. In 1986, more than 40,000 university students nationwide took qualifying exams for graduate work at various Beijing area universities. Of this number, 16,000 were from the area alone.

However, the years 1987 through 1989 saw a decline in these numbers in each successive year, with 1989 showing the greatest drop. The number of students taking exams for graduate work at Beijing area universities in 1989 showed a 40-percent drop from 1988.

In the past, most candidates for graduate studies come from the following sources: research institutes of science and technology, industrial plants and factories, scientific and technical personnel from various enterprises, teachers from high schools and schools of higher learning, party and political workers, and current graduates from schools of higher learning with majors in the field of proposed study.

On the basis of their educational backgrounds, these graduate student candidates may be classified into two

groups. One group consists of students who have been formally educated in a specialty at the college level and beyond. The other consists of individuals with "equivalent education" who have not received bachelor's degrees in their specialty.

At the same time that the number of graduate student candidates showed a great drop, a phenomenon related to this overall trend appeared. Whether nationwide or confined to the Beijing area, the numbers of graduate school candidates derived from the ranks of already working individuals with "equivalent education" showed a large-scale proportional rise each year. For the first time, the number of candidates enrolled who were high school teachers exceeded the number of teachers from schools of higher learning.

According to responsible authorities at the Office for Graduate Education under the Beijing Board of Higher Education, the number of candidates for graduate study in the Beijing area in 1988 who had an equivalent education background comprised 11 percent of the candidates already holding jobs. In 1989, this ratio rose to 31 percent; and this year, that is, 1990, this figure reached 45 percent.

This phenomenon was especially noticeable among candidates admitted and enrolled in universities emphasizing liberal art studies. Among working individuals taking exams for graduate studies at the China People's University, more than 35 percent were candidates with equivalent education. At the China College of Politics and Law, this figure was 60 percent.

The situation nationwide was similar to that in Beijing.

In 1988, 30 percent of the candidates holding jobs had an equivalent education background. In 1989, this figure rose to 38 percent, and in 1990, this has already exceeded 42 percent.

There are far-reaching causes for such a phenomenon.

In the first place, regulations in the state's policy for enrolling candidates, place emphasis on admitting candidates from the technical backbone among working personnel, and not on admitting those from the ranks of current university graduates majoring in a special field. For the first time in 1990, a limit was placed on current graduates recommended by their universities as candidates for further study in their special fields. Accordingly, 14,000 graduates are expected to be recommended by their schools, but only 11,000 will be qualified and enrolled after examination, thereby reducing pressure on the allocation of candidates from "examination and study" students who did not make the list.

At the same time, an increasing number of graduates from the "five universities" is also a factor in the proportional rise of candidates with equivalent education. Many candidates who did not have an opportunity to study their specialties at a regular school of higher learning, were able to take courses at "evening college,"

"electronics college," or "university extension" to equip themselves as candidates for further study as graduate students.

On a smaller scale, depending on the individual, there are even more factors leading to such a change in graduate student ratios.

Among the many factors affecting candidates who are college graduates in a specialty field, is the remuneration for their work after completing their postgraduate studies.

During the last few years, with the advance of reforms and opening up, the wage/salary system also tried reforms. According to the wage/salary system being practiced at present, the difference in pay received by research graduates and university graduates in a specialty major is very little. Actual implementation shows that between two college students graduating in the same special field, the one who chooses not to pursue graduate studies but participates in the work force in his major field right away, will receive many practical advantages later on.

For example, a student who graduated from college in 1983 with a specialty joined the work force in his field directly after graduation. During his year of probation, his earnings would be 64 yuan per month. Upon completing his probation he would be promoted to assistant professor or assistant engineer during his second year, earning 70 yuan per month. After working for four years, he would be promoted again to lecturer or engineer, earning 97 yuan. That is, his salary in 1988 would be 97 yuan, and, with a living allowance subsidy of 0.5 yuan for each year he was working, this figure would be 99 yuan per month.

In another example, a student who graduated from college in 1983 with a specialty chose to be a candidate for further graduate study, and was selected. During his three years of study, he would receive tuition assistance of 58 yuan per month. Upon completion of his graduate studies in 1986, he would go directly into a formal position as assistant professor earning 82 yuan per month. After another two years, he would move into a position as lecturer earning 97 yuan per month. That is, he would be earning 97 yuan per month in 1988, though his actual salary would be 98 yuan a month, counting his salary supplement of 1 yuan per month for the two years he had been working.

From this we can see that two students graduating from college in the same field the same year will see similar growth in their salaries after five years though their work and education patterns will have diverged during this time.

According to conditions at various work units, particularly enterprises and factories, the length of work experience is frequently an important factor in wage and salary adjustments. However, because of reforms in the

wage/salary system, the actual income received by students joining the work force immediately after graduation with a specialty major is greater than that for those who graduate the same year but choose to pursue further graduate study.

Apart from factors involving salary remuneration, other areas that affect students from the current graduating class as candidates for further graduate study include the following:

"Postgraduate research" is considered a "transition" for those expected to go abroad, to stay in Beijing, or to return to their native districts.

As an example, take the 1990 graduates from the department of mechanics at Beijing University. Of its 52 current graduates, 22 were recommended as candidates for postgraduate study. Of these 22 students, five were expected not to pursue further studies. Two are waiting to go abroad, one has been assigned to work in the Ministry of Nuclear Industry, one is staying to work at the university, and one has petitioned to return to work in his native district so he could also take care of his parents, and he has been approved by his local work unit. Furthermore, a student recommended for graduate study said that many candidates wishing to stay in Beijing considered "postgraduate research" a transition.

The drop in the number of candidates with degrees in a field of major study from current and earlier graduating classes has been accompanied by a rise in the proportion of candidates with equivalent educational backgrounds.

At the same time, because present Chinese society has begun to recognize the importance of a diploma, those individuals who have worked a few years (generally 2-3 years) in particular, want to pursue further studies. Because these persons are clear about their goals and realize the pressures from a lack of knowledge, they are gravitating toward postgraduate research and study at institutions of higher learning.

Such a phenomenon has its positive aspect. It meets the needs of the state to train specialists at the front lines of research. Yet there is also an unfavorable aspect. Responsible colleagues at the No. 1 Office on Graduate Education under the State Education Commission's Department of Higher Education, those at the Office of Graduate Study at the Beijing Board of Higher Education, and even those colleagues in charge of graduate study at various universities, all see the hidden danger.

Because the quality of education received by many with equivalent education is not quite as stringent as that received by graduates with degrees in a specialty field, university administrators responsible for recruitment and instruction will encounter some difficulties. In 1990, 43,000 candidates applied for graduate study, of whom 18,000 were candidates with equivalent backgrounds. The original plan called for selecting 14,000 to 15,000,

but this quota is not expected to be met this year because of problems with the educational quality of these applicants.

Resolving problems concerning the assignment and work remuneration of these graduate students after completion of postgraduate research and study directly affects their recruitment and teaching. Resolving this problem will be beneficial for postgraduate education in China as it enters a healthy systematic cycle. It will also be of benefit to even better training of a strong force for scientific and technical modernization in China.

### **Increase in Abduction of Women, Children Analyzed**

90CM0411A Shanghai SHEHUI [SOCIETY]  
in Chinese No 7, 20 Jul 90 pp 1-4

[Article by Yi Xin (0076 2450): "A Simple Analysis of the Crime of Abducting and Selling Women and Children"]

[Excerpts] In these years the crime of abducting and selling women and children has repeatedly been prohibited, but it has not ceased. Becoming more and more serious day by day, it has become a critical problem for public security. The reaction of the masses of people and of all quarters of society has been extremely strong, and they have demanded that the party and government take vigorous measures to deal resolute blows and to firmly prevent this crime.

### **I. Characteristics of the Current Crime of Abducting and Selling Women and Children**

A. This crime is becoming more rampant day by day, and its range is widening. The number of women and children who have been abducted and sold has increased. Although this crime has been prohibited many times, in some places its momentum of expanding and being drawn out is still very strong, and is even becoming stronger. This type of crime occurs mostly in remote or border areas that are poor and backward. It is now gradually spreading to cities and towns and to fairly well-developed areas. Before 1985, in Yunnan Province alone, women and children were abducted and sold in 30 counties in 11 prefectures and autonomous prefectures. Now, in the same province, there have been cases of abducting and selling women and children in more than 140 counties and cities in 17 prefectures and autonomous prefectures. According to incomplete statistics from 12 prefectures and autonomous prefectures, in 1988 a total of 3,922 women and children were abducted and sold, equal to the total number of abduction and sales in the two years of 1986 and 1987; in 1989, as of October, 2,188 had been abducted and sold. These were only those cases reported by the masses and tracked down by the public security organs; in reality the number of abductions and sales was far greater.

B. The traders in human beings collude with people inside and outside their own circle, and their methods of

abducting and selling women and children have become more fierce and cruel, more cunning and fraudulent. This crime has drawn the serious attention of all quarters of society, posing a threat to the activities of the traders in human beings. These traders in human beings collude with others of their own ilk in a locality, and they all act in collusion. Making use of the local traders in human beings, who are familiar with the place and the people, they easily win the trust of women, and then by trickery abduct and sell them.

Some time ago, in other places the traders in human beings, in the name of looking for a marriage partner, many times hoodwinked women with blandishments into accompanying them out of a given locality. But now, following the improvement in their living conditions, the peasants' enthusiasm for building up the family fortune has soared, and not many women leave their hometowns to escape poverty. Making use of the rural women's psychological bent toward wanting to live in cities and make a lot of money, the traders in human beings engage in abduction activities which easily dupe and fool some women with the baits of "running a business in partnership," "getting a good job," and "being a tourist." As a trader in human beings explained after his capture, "It is so easy to hoodwink these women and sell them. Provided you brandish the three talismans—going to the city, making money, and finding a job—they will, staring at you blankly, believe everything you say." Some traders in human beings even ruthlessly kidnap single women who have gone outside than their hometowns and then sell them. Still other traders in human beings rape the abducted women before selling them, brutally beat and curse them, and ruin their health.

C. This crime is tending more and more to be done by gangs. In some places there have appeared professional gangs for the express purpose of abducting and selling women and children. A gang has a complete set of plans in which there is a clear division of work and in which all links in abducting, receiving, passing on, and selling are set forth, each link having its own responsibility and forming a continuous process for abducting and selling. According to a survey of Yanjin County, Yunnan Province, over the past several years more than 3,000 women and children have been abducted and sold in this county. In these same years, Zhaotong Prefecture, Yunnan Province, organized 54 professional survey teams to take surveys, which found that there were 107 gangs that had abducted and sold women and children. A total of 877 traders in human beings were involved, of which 232 were arrested and 16 were reeducated through labor; a total of 243 victimized women and children were rescued.

D. Most of the targets for abduction and selling are children and unmarried women in poor rural areas. Some young women in these rural areas are anxious to extricate themselves from the life of poverty there, but because they have seen little of the world they are easily tricked by the traders in human beings. Once the latter

trick the former into their hands, they sell the girls at high prices, some for as much as 4,000 yuan.

It is noteworthy that cases of abducting and selling children have also occurred time and again recently. For example, in Rongcheng Town, Yiliang City, Yunnan Province, in May 1989 a criminal gang that had abducted and sold children was arrested. This gang had abducted more than 10 children, some of whom were still infants. [passage omitted]

### III. Causes of the Increase in the Crime of Abducting and Selling Women and Children

A. Following the thorough implementation by the party of its various policies for the rural areas, a fundamental change occurred in the rural situation. In places where the natural conditions and the economic base are fairly good, some peasants took the lead in becoming prosperous. In the past, peasants without money married and had children, but now only peasants with money take a wife. Because girls are few and expenses are high in these places, the peasants who have prospered turn their gaze to rural girls in some poor areas where the economic base is fairly poor and development is fairly slow. Traders in human beings, who are bent solely on profit, think that abducting and selling women is a short cut to getting rich that requires no capital and produces enormous profits. Therefore, emerging as the times require and with profit as their goal, they use deception, lures by promise of gain, coercion, and other means in their crime of abducting and selling women and children. If a trader in human beings abducts and sells one woman, he usually gets a profit of between 1,500 and 4,000 yuan, and without the need to have capital. After twice abducting and selling women, a trader in human beings, dizzy with success, said, "Getting a woman to the northern border is equivalent in profit to cultivating successfully a 'responsibility plot' for 10 years."

B. Although the crime of abducting and selling women and children has many times been prohibited and dealt a blow, for a long time it has not been effectively stopped. This is mainly because in some places the party and government leaders and the functional departments have not sufficiently understood the danger to society of this crime, have not taken the crime seriously enough, and have not cracked down hard on it—all of which is manifested mainly in the following aspects:

First, there is a lack of unified, organized leadership, and the duties of the relevant departments are unclear. Before 1985, in each prefecture, autonomous prefecture, city, and county in Yunnan Province there was set up an office for cracking down on the crime of abducting and selling women and children (shortened to "abduction crackdown office"). These offices did a lot of work in relentlessly cracking down on the traders in human beings and in rescuing victimized women, and they effectively stopped the spread of the crime of abducting and selling women and children. At the end of 1985, after the "abduction crackdown offices" were abolished,

because there was no unified, organized leadership, no one to coordinate the departments, and even no one in charge of this work, the tendency of this type of crime to rise again and run rampant became more serious day by day.

Second, there is a shortage of the funds necessary to handle cases. The greater part of the traders in human beings who are involved in this type of crime are outside the province, and most of them are from other places. They flee into society, where they wait for a long time for a chance to commit this type of crime again. There is great difficulty in gathering evidence, and the costs and expenses are high. Most of the places where the crime of abducting and selling women and children is serious are poor counties and, consequently, many cases are impossible to investigate and handle.

Third, laws are not sufficiently perfected, and in some places the laws are not strictly enforced. The existing laws provide only for the criminal punishment of traders in human beings, not the public security punishment. With regard to those who do not yet fall into the category of legal criminality, there are no provisions for their reform through labor or education. In addition, in some places laws are not strictly enforced, crackdowns on traders in human beings are not vigorous, punishments of them are not strict, and they are arrested and released time after time. In some places there are only fines to educate the traders in human beings, and so they are unafraid and commit successive crimes.

C. Rescuing abducted and sold women is very difficult, and there is a lot of resistance to it. Governments and relevant departments at all levels, under extremely difficult working conditions, have effected a lot of rescues. However, few results have been achieved. The masses in some places where human beings have been bought think

that they have spent money to buy a wife, and if the women are rescued they will be out of pocket in both money and wife. Therefore, they not only do not give their help and support, but rather, on various pretexts, obstruct the work and create difficulties, even inciting the masses who are unclear about the true situation to surround and attack the rescuers.

D. Some young women lack the ability to discern and resist abduction. Of the women who have been abducted and sold, more than 70 percent were unmarried girls, and the great majority were illiterate or semi-illiterate. Young and inexperienced in the ways of the world, they think that the world outside their hometown is very fine, and they want to see it and try it out. There were also married women, who, because they were dissatisfied with their original marriage relationship and were powerless to get out of or change the relationship, left home. Making use of these psychological weaknesses of the women, the traders in human beings, with the baits of helping the women to find a job, engage in trade, or go on tourist trips, tricked the women into leaving their hometowns, whereupon the traders in human beings abducted and sold them.

E. Some basic-level cadres and masses in the rural areas have a weak concept of the legal system, and some of them even shield and support this type of crime. They think that buying a wife from a trader in human beings is better than taking a wife with a high bridal price, and even that it is cheap, convenient, and worthwhile. It is no wonder that some traders in human beings give themselves the interesting name "Long-Line Hong Niang" [Hong Niang is the name of a fictitious maid in the drama *The West Chamber* who helped unite the hero and the heroine—a non-profitmaking go-between for lovers], and they use this name as a pretext to gloss over their criminal behavior. [passage omitted]



**Widespread Military Corruption Spotlighted**

91P30005A Hong Kong KAIFANG [OPEN] in Chinese  
No 45, 15 Sep 90 pp 28-29

[Article by Cai Yongmei (5591 6102 2734): "Chinese Military in the Midst of Corruption—Combining Military and Commercial in the Search for Money"]

[Text] Batch after batch of people flowing blindly from Sichuan, Guangxi, and Hunan crowd upon the wharves of Zhanjiang in Guangdong, ready to ferry across to Hainan Island and try their luck. But the men from the Public Security Bureau in Hainan block off the docks and do not allow them to buy tickets to get on the boats. And many who successfully made the trip south are returned to Zhanjiang by boat by the Public Security people.

The Hainan Public Security Bureau may blockade and send people back, but the military stationed in Hainan also send their military ships to meet the emigres and, selling tickets at 10 yuan per person, send ship after ship of them out to Hainan Island. Some of the people, having just been put off the Public Security Bureau boat, immediately board the naval ship. This may seem to be done in direct contradiction with the Security Bureau, but actually it is only for the purpose of making money.

This is only one weird example of how, in the past several years, as a result of shortfalls in military expenditures, Chinese Communist military units have successfully carried out their so-called "production and operation."

**Being a Soldier Is Not Much Better Than Being a Beggar**

A popular saying among the mainland military these days is that 10 years of reform enriched the common people and impoverished the soldiers—military expenditures fall year after year, while prices rise year in and year out—being a soldier is little better than being a beggar. Shortfalls in military expenditures have left the PRC military without the ability to maintain even the most basic self-respect. The coastal region is the most prosperous area of the mainland, but a certain military base in Fujian was poor to the point of having no funds to purchase vegetables. The mess hall sergeant ordered his soldiers to go to the town market to collect rotten vegetables: The soldiers were so ashamed of themselves that they changed into civilian clothes before going.

In some garrisons when relatives come to visit and want to take some pictures for the memories, the background is sure to be the outdoor toilet, because the entire base is ramshackle, except for the newly constructed toilet.

When renowned reportage author Qian Gang visited the Weihai City garrison on Liugong Dao island he saw a naval cadre carrying a Navy officer's uniform and a woman carrying a camera. The naval cadre asked him: "Do you want to take a picture? The price is one yuan per picture, wearing the uniform." The man was a

worker in the regimental political office, the woman was his camp-follower wife who was awaiting a work assignment. From this one can imagine the seriousness of the Communists' military expenditure shortfalls.

**The Only Merchant Army in the World**

In recent years, the method by which the mainland military has resolved the "tight situation" in military expenditures is to advocate that "production and operations" be carried out simultaneously with military training and weapons training, that is, to operate enterprises and to do business. According to some foreign military analysts, of all the businesses in the world, there is only one army that is simultaneously military and commercial, and that is the Chinese People's Liberation Army [PLA].

Ever since the ascendancy of Deng Xiaoping, every unit and every organ of the Chinese Communist Army has gotten involved in a high tide of commercial activity. Everything in the units that can be used for civilian operations, including airfields, wharves, hospitals, entertainment centers, and even training fields, and military shooting ranges have been all opened up to the public to make money. Even the Air Force's aircraft and the Navy's ships are used for transport services and for carrying private commodities. The military not only invests money to operate enterprises, but also uses foreign capital for joint-venture enterprises. For example, the most luxurious tourist hotel in Beijing, the Wang Fu Hotel, is a PLA joint venture.

According to foreign estimates, in the current national economic production on the mainland, military enterprises already occupy a major portion, and the trend is on the increase, to the point that the number of military personnel engaging in production and management, operating enterprises, and generally doing business (full or part time), is estimated to represent one tenth of the total PLA population, or 300,000 people.

According to a report in JIEFANGJUN BAO, because some company commanders and political officers spend all of their time away from post doing business, there is no one minding the company store, and everything is being allowed to simply drift along. Amidst this high tide of economic endeavor, the officers have no heart for commanding soldiers, and the soldiers have no heart for training, and so a great many soldiers commonly go off or take leave to conduct business on the outside. Some of the soldiers get together with local household enterprise operators to open shops and run factories. Some barracks, because of this, have become houses of commerce where commodity information is traded, business is discussed and contracts are signed; people come in and go out of the barracks from dawn to dark, the cigarettes, liquor, and food never stop coming, and the atmosphere is murky with smoke. Even more unfortunately, because economic disputes often occur with the local businessmen, the concerned civilians often charge into the

barracks cursing and quarreling, totally destroying all order in the military system.

#### **Misplaced Priorities, All for Money**

Within the military, in order to make money, anything goes. A short time ago, when the table tennis craze hit China, some of the companies set up table tennis tables in the compounds and charged a fee for each game. They had a plan for the soldiers: If a soldier used up all his money playing, they would debit his next month's allowances. Some table tennis fanatics blew a half year's pay in one day's play.

Military ambulances are used in transport businesses. During training, a soldier was wounded, an ambulance was called, but the ambulance was out hauling apples. There were cases when a soldier's wounds were not treated in time, worsened, and he did not recover. This sort of emphasizing the peripheral and forgetting principles is especially common in units under the PLA Logistics Department. For instance, after a hospital has been opened up to civilians, they are often unwilling, and sometimes even refuse to take military sick or wounded. They know that the empty bed can be used for a civilian patient who has to pay a fee for treatment at a military hospital, and that this can reap the hospital a great deal of extrabudgetary money. For this reason, in not a few military hospitals, the civilian patients outnumber the military, with the result that the military has a hard time getting treatment or being admitted to a hospital. Some military enterprises, in order to sell their products, send soldiers out into the streets to set up stands and hawk their goods, or advertise in public places, a practice that is becoming very despicable.

Some military enterprises sell counterfeit drugs and place false and deceitful ads in the papers, thus cheating the people by using the good name of the military.

Within a very short time the attitude of "all for money" was rampant in the military, and the entire military establishment became corrupted because of it: Profiteering, smuggling, running contraband arms, taking bribes, swindling, every type of illegal economic activity is indulged in to its utmost, in an endless stream.

#### **Entangled With Illegal Arms Running to Hong Kong and Taiwan**

Since the Chinese Communist military has set up official organizations companies to sell arms on the international market, some units and individual soldiers are making use of their position and authority to link up with outlaw elements and secretly sell arms to Hong Kong and Taiwan. According to reports, the Hong Kong police have frequently confiscated T-54 automatic pistols, the most widely used handgun in the Chinese military. And the T-77 pistol, which is so popular among the secret societies of Hong Kong and Taiwan, is also one that is widely sold abroad by the Communist military;

even the very latest mainland military automatic pistol, the T-84, has also started to appear within the secret societies.

The military also had a hand in the big car-smuggling racket on Hainan Island which shook the country some time ago: Many of the vehicles were shipped out of Hainan by the Navy on Navy ships. However, as far as this big scandal is concerned, the Communists have kept a tight lid on it, and have only revealed a few things about some low-level small-scale smuggling. For instance, JIEFANGJUN BAO recently reported that a certain military unit used military vehicles some 80 times between 1988 and 1989 to help some individual household businesses smuggle cigarettes and household appliances worth some 1,600,000 yuan.

In order to stop the smuggling activities, the Communists have set up checkpoints, but no one dares to stop and search military or emergency vehicles, and they pass through with no problem. Some informed sources on the mainland say that many military vehicles and emergency vehicles are for this reason used in smuggling to great profit; when civilian vehicles are used, the goods are off-loaded onto military vehicles or they just put military licence plates on the civilian vehicles and brazen their way through the checkpoints.

#### **All of One Kind; Dare Anything**

The people on the mainland have a saying: "As for today's soldiers, other than their yellow skin, how are they better than us? Except for killing and burning, what is it they don't dare do?"

A certain military airfield in northeast China rented out space for storing foodstuffs to the local grain company, and the resident soldiers took this opportunity to steal the food. In the beginning it was only small thefts and pilfering, but later the company commander got the troops up in the middle of the night to haul big bag after bag of the food to the military grain storage sheds. In the end, they colluded with local bad elements and marshalled lines of tractors to ship the stuff out to sell it; the local grain company suffered a great loss. After this was exposed, it was then learned that all of the troops on the base, including their dependents, had been stealing the grain.

However, if these incidents involve layers of economic crime, then they are very difficult to expose.

There have been 39 cases of corruption and bribery revealed in the Fujian Military Region since 1988; of the 158 criminals, the majority were military officers or cadres. Because of the wide connections, involving even some deputy division commanders and staff officers, the investigators met with a lot of intercession, cynicism, rumormongering, intimidation, and layers of obstruction in their investigations, even to the point that some people threatened to kill them.

After the June 4th Incident, because the Communists imposed greater political ideological control on the military, coupled with two years of administrative and economic reorganization, on the surface the high tide of business activity by the military has slackened off, but the attitude of doing "everything for money" has not changed, and corruption and graft still remain.

Because of this, some glib city soldiers have changed the words of the song *I Am a Soldier* to:

I am a soldier now;  
I love money as I love my life;  
Doing business and making money have tested me:  
My position is much firmer now.

### **Amphibious Zhongdui Trains Special Forces Troops**

90CM0311A Beijing JIANCHUAN ZHISHI [NAVAL AND MERCHANT SHIPS] in Chinese Nos 5, 6, 1990

[Article by Shen Shungen (3088 7311 2704): "The Mysterious Naval Special Forces Zhongdui—A Visit to the East Sea Fleet's Amphibious Reconnaissance Zhongdui"]

[No 5, 8 May 90 pp 2-4]

[Text] In the People's Navy there is a mysterious service which wears camouflaged battle fatigues. In foreign countries they are sometimes called "speedboat zhongdui," Green Berets, combat divers, frogmen units, or seaborne special forces. In our People's Navy they are called the Amphibious Reconnaissance Zhongdui. Full of curiosity, I visited the East Sea Fleet Amphibious Reconnaissance Zhongdui late in the autumn.

### **Shaolin Masters in the Military**

The amphibious zhongdui is stationed amidst barren mountains and isolated streams. It took two days and one night of strenuous travel to get there. I had thought to turn in early after the rough trip, but I had barely lain down when all sorts of noises from the athletic field assaulted my ears. The building shook as if an earthquake had hit it. A thumping sound, like someone beating a quilt with a club, could be heard. Out of curiosity, I got up and looked out the window, but all I could see were some shadowy figures in the moonlight. I put on my clothes and went out to the athletic field. In the still of the night, a chorus of song from the insects and frogs filled the air, and a bird's cry occasionally came from the forest.

When I arrived at one corner of the athletic field, I saw a young man practicing tumbles on a cement area. He would fall down, spring back up immediately and, spinning like a tornado, crisply snap a foot forward. It was just like in a martial arts movie. Bare-chested and dressed in shorts, the young man's body glistened with sweat. As he practiced furiously, I dared not approach for fear a flying foot would knock my front teeth out.

Beneath a tree in another corner of the field, a shadowy figure was ramming his chest into the tree trunk. It sounded just like someone beating quilts with a club. Each time, he would follow up by giving the tree a ferocious kick with the sole of his foot. When I came up for closer look, he seemed to become embarrassed. He was a baby-faced young soldier. I asked why he was practicing overtime at night. He said that only practice makes perfect and that if he missed a single day he would backslide. He had instituted a regimen for himself in which he had to train daily without fail. I asked him who that was across the way practicing his kicking skills. The baby-faced soldier said he was their deputy squad leader, who had won second place last year in a full-contact martial arts contest. He had lost because his kicking skills were not as good as his opponent's, so he had been practicing on this area ever since he had gotten back. By now, his legs have practically become iron.

As I walked back to my room, I happened across the mess hall and heard some more noise. When I took a look inside, I was shocked to find two young men in red T-shirts lifting weights. One of them was lying face up on a bench with a dumbbell in each hand, pumping them in an arc, in and out, in and out... The muscles on his chest and arms bulged like iron. If you chopped at those muscles with a hatchet it would probably have bounced away. A puddle of sweat had collected on the floor. The other young man was lifting his dumbbells up and down 100 times without a break. Sweat glistened on his neck. Elsewhere, in the forest at the foot of the mountain, barely discernible figures were practicing plum-blossom stake boxing [a type of martial arts training in which two opponents spar while dancing on the ends of thick wooden pilings driven into the ground] and Luo Han boxing. I suddenly got the feeling I had come to Shaolin Temple and that each of the young people here was training to turn his hands into steel and his legs into iron.

My visit officially began the next day, and sitting in front of me was the leader of the zhongdui, Ding Jian [0002 1017]. His two eyes were sharp and fierce. He was nicknamed Colonel Ba. He began studying boxing with a master in Yangzhou at age eight. He got up at 0400 every morning to practice martial arts, and had not interrupted his regime in 20 years. It is said that his master was Tang Dianqing [0781 3013 3237], the "famed master of all lands north and south of the Chang Jiang" during the Qing dynasty. Tang used to go for a stroll early every morning with a birdcage in one hand and a teapot in the other. It happened once that two assassins attacked him from behind with knives. Tang knocked them to the ground without even upsetting the birdcage or the teapot. The assassins never knew what had hit them. When Tang Dianqing used his martial arts, it was like lightning striking. Of course, by Ding Jian's generation, the famed master had turned out a brilliant student, and the martial prowess of the two was about the same. Small wonder that the amphibious reconnaissance troops,

under the rigorous mentorship of this kind of commander, had become famous throughout the east China region for their martial arts skills.

Commander Ding said, "Boxing is a required skill for us. The object is to strengthen our bodies. At the same time, we demand that our men be able to use their hands to overcome any enemy they might encounter in wartime. Boxing can toughen people mentally and help them to get through highly difficult training tasks."

Commander Ding also told me that these young people were very excited about their martial arts training, and that they were very tenacious. He told me a story about two cooks. One was named Chen and the other Li. Both of them had become very enthusiastic about hard qigong [a system of deep-breathing exercises]. Chen got up every morning at 0400, lit the kerosene stove, put a wok on the burner, and filled the wok half full of iron filings. After turning up the fire, the filings would become red hot. He would roll up his sleeves, stick his hands in the filings and turn the filings over, using his hands the way people use a spatula when roasting peanuts. This type of hard qigong is called "iron filing hands," and with it one can use the palm of one's hand to overcome an opponent. After Chen had trained for a year, his palms had been toasted dark and hard as iron. Even a needle could not pierce the skin. His fingernails were also quite unique. They grew back into his fingers. His five fingers had been ground down to the point where they were nearly identical in length. Some people once tested Chen by wrapping a brick in a blanket. He struck the blanket with the palm of his hand and the brick shattered to pieces.

There were even more stories about Li. He was filming a few scenes for an adventure movie while I visited. He broke six bricks with a single stroke and shattered three beer bottles against his forehead. His favorite performance is to place a steel rod against his throat, summon his *qi*, and push against the rod until it bends. Someone took a photograph of him giving this performance and his mother was shocked to see it. She insisted that her son stop doing such dangerous things. She refused to listen to her son's pleadings, and finally he became agitated and jabbed four chopsticks into his throat. They snapped crisply, but his throat was fine. She felt her son's throat and asked, "Have you got steel plates in your throat? Have you had an operation?" Her son smiled and said, "That was qigong."

I asked Commander Ding, "Besides exhibitions, have you ever used all this martial arts prowess in a real-life situation? He smiled and said, "You can't go around hurting people for no good reason. That's the rule." He then related a few anecdotes.

Once when Commander Ding was on home leave, he boarded a city bus on the Bund in Shanghai with a shopping bag in one hand and a briefcase in the other. Suddenly he felt a villainous hand reaching for the wallet in his pants pocket. With a "swish," he threw his briefcase into the air and grabbed it with his other hand,

and his right hand clamped down on the villainous hand. He gripped the hand a little tighter and the bones began to crackle. The hand dared not move. When the commander turned around for a look, the thief's face was purple with fright, and the person had broken out in a cold sweat. The commander said softly, "Get off the bus with me!" When they got off, the thief obediently followed him to the police precinct.

An even more interesting event took place when a fendui leader was on home leave. He was resting at a bus station when a group of street toughs came and insisted on playing with his hat, but he refused to let them. The toughs thought they would beat up the fendui leader. That stirred him up! A leg flashed out as he remained seated. "Whack!" The leader ended up on the ground 15 feet away, and the rest ran away, frightened. Bystanders had witnessed the entire scene and gazed admiringly at the fendui leader. Someone said softly, "That Navy guy has spent time in Shaolin Temple for sure! He's incredible!"

#### Underwater Attack on an "Enemy Ship"

The amphibious reconnaissance troops can train for some basic skills on land, but it would be far from adequate if they only had the skills needed by an Army reconnaissance force. Those are low-level skills. Their real skills are learned at sea, where swimming and diving are the fundamental requisites.

Using torpedo launching tubes to crawl out to sea is one of the important, highly difficult skills which these men must master. Commander Ding said that this operation is very dangerous. If the equipment malfunctions and makes it impossible to adjust air pressure properly, or if the diver forgets proper procedure, he can be asphyxiated, bleed from all five orifices, or get decompression sickness. However, having trained one group after another over a period of 13 years, an accident has yet to occur. The key lies in the fact that they have run the training according to scientific procedures. The cadres have a strong sense of responsibility and have paid close attention to safety.

The commander said that the zhongdui had carried out an underwater exercise in September 1984 that closely approximated actual wartime conditions. The task called for divers to swim underwater and blow up an "enemy ship" lying at anchor. In the late 1960's, the Vietnamese used special underwater teams to damage or sink more than 100 ships of the U.S. puppet navy, including the "Carter," a 15,000-ton escort/aircraft carrier, and 10,000-ton oil tankers and freighters. They made the U.S. Navy very nervous that their own ships might have mines attached to them. The U.S. Navy was forced to establish a "search and observation brigade" to counter frogmen. In reality, this brigade was a type of special force. At first they trained dolphins to counter frogmen. They mounted a poison dart on the head of a dolphin, and the dart was attached to a tube of pressurized carbon

dioxide. The dolphin would attack whenever it discovered a frogman, pierce the man with the dart, and the diver would instantly be inflated like a ball, and he would die a horrible death as his intestines were pushed out the anus. However, the dolphins could not tell the difference between friend and foe, and several U.S. frogmen were killed.

The sky was cloudless the day of the exercise. Each of the amphibious reconnaissance men carried equipment onto the submarine. After leaving the dock, the submarine proceeded to the planned location and rested like a fish at the ocean bottom under 40 meters of water. In wartime, this submarine is the command center of the underwater special fendui.

The three-man team began putting on its equipment, and the officers inspected every part of it. According to regulations, no one would be allowed to crawl out the torpedo tube if his nose was stuffed up, his eardrums were full of blood, or his heart was making irregular sounds or beating too fast.

The submarine commander barked out the command: "Team No. 1 can enter the tube!" The amphibious reconnaissance men quickly put on their oxygen tanks and masks and began to crawl into the torpedo tube. The first to enter was the old team leader. He carried a mine shaped like a tea tray which could be folded over into a semicircle and cradled between the hands. He wriggled slowly into the tube by pushing with his feet and elbows. The legs and feet had to be kept straight, and the oxygen tank could not be allowed to knock against the tube wall, which was just an inch or so away. The men first had to practice entering the tube on land or in a pool more than 100 times until everyone had worn blisters and then callouses into their knees and wrists. After all three men had entered the tube, each of the last two could touch the feet of the man in front of himself. The first time a new man takes part in this exercise, his heart is sure to race. "Close the rear hatch!" The round steel door clanged shut and the screws were tightened down. With a "whoosh," the air pressure in the pitch-dark torpedo tube gradually began to rise until it equalled the water pressure outside the submarine. Water then poured in. This was the most difficult part. Their entire bodies felt like they were on fire, and each man grew dizzy and saw stars. Their ears felt like they were being run through with a needle, and their bodies felt like they were being squeezed by a giant hand until the veins were about to burst. At this juncture the men had to rely on willpower and skill to regulate their bodies and senses. They felt like they were in a hot, stuffy bun steamer.

The commander banged out signals to inquire about the condition of each of the men in the tube, which the reconnaissance men answered by banging out their own signals. After it was ascertained that all was proceeding normally, the submarine commander ordered: "Open the front hatch!"

With a thump, the front hatch opened and a current of seawater pressed in along with a shaft of light. The first diver wriggled out of the tube with his magnetic mine. He was soon followed by the second and third divers. The last diver banged three times on the submarine to signal to the submarine commander that the team had safely exited the tube.

The three-man team swam in triangular formation, with one man holding the mine and the two others escorting him forward. They were constantly on guard against the ferocious, meat-eating shark.

The "enemy ship" lay 500 meters away. The men relied on their underwater compass to find their way. The ocean current at that time was strong and it was quite an effort to swim forward. If they had not been good swimmers the task would have been impossible. They swam carefully to make as little noise as possible. A huge shadow loomed ahead—the "enemy ship." After they reached it, they found the position of the engine compartment, they placed it against the ship's hull, pulled out the anti-minesweeper plug, and the round magnetic mine stuck to the hull like a pancake. They set the timer and it began to tick.

Once the task was completed, they swam silently back in combat formation along the seabed, got back into the submarine, and no one was the wiser. If it had been an actual war, that "enemy ship" would have had its belly ripped open by an explosion and it would have quickly gone down to keep Neptune company in the watery depths.

### Clearing Away Underwater Explosives

Commander Ding said that the underwater duties of the amphibious troops involved more than just blowing up enemy ships. They sometimes sneak underwater to the beach at an enemy island in order to observe currents, seabed topography, and underwater obstacles. By so doing, they can clear the way for a landing. The commander spoke about battles of the past. On the eve of the Battle of Normandy in June 1944 during World War II, The British and U.S. Navies sent out frogmen to obtain detailed observations of water depth, currents, slope of the seabed, topography of the seabed, and German antilanding defenses in the area where the landing was to take place. This information enabled the Allied command to choose the proper site for the landing. After the landing had commenced, 10 combat teams of frogmen were formed, and they blew up mines and underwater obstructions. Within an hour and a half they had cleared the area of antilanding obstacles and had opened up a 700-meter path for the landing.

The most dangerous underwater operation for the reconnaissance detail is the task of clearing away various types of mines. The East Sea Fleet's Amphibious Zhongdui has carried out special training exercises in this area. They have mainly studied ways to clear away magnetic mines which enemy frogmen have planted on ships.

Once a magnetic mine has been planted on the hull of a ship, it is very difficult to remove because it will explode as soon as it is separated from the metal hull. The men in the reconnaissance detail learned all about the performance and characteristics of mines and learned the location and function of their various components and finally were able to understand how to prevent mines from exploding. Later, they developed a tool that has enabled them to remove mines with greater speed and safety.

During my visit, the men in the amphibious reconnaissance detail were training to sweep six different models of land mines. The object was to be able to slip onto an enemy island during wartime and clear away land mines in an enemy minefield. This was a new training subject for them.

[No 6, 8 Jun 90 pp 2-3, 22]

#### [Text] Crossing the Sea To Steal Information

Commander Ding said that some nations have developed a minisubmarine, which is the best instrument for transporting special forces to sneak onto an enemy island to steal information. China does not have it yet, but we have carried out training with a type of underwater transport device. I have seen it in their warehouse. It is three meters long and less than one meter wide and can only seat two or three people. It looks like a kayak. It is battery-powered and its range is not great. The commander said that the batteries are too expensive so they cannot afford to use them up.

He talked about an interesting training exercise that was carried out in conditions approximating real combat. On that morning, fog enshrouded the "enemy island" and waves lapped at the shore. The "enemy" was just then doing calisthenics.

Two frogmen suddenly appeared in the rocks just off the beach. They swam underwater to the beach and quickly hid in some weeds. They carefully scanned the road and, finding no passersby, quickly dashed across it and scurried into the forest. They quickly stripped off their diving equipment and hid it in the underbrush and quietly made their way through the forest to the hills behind the "enemy installation."

The task for these two amphibious reconnaissance soldiers was to steal information. They had boarded an underwater transport device and proceeded to the island at a depth of eight meters. All the people in the "enemy installation" had gone out for calisthenics. There were only two people, left behind to man the office, sweeping the floor. The two reconnaissance men discussed their options and guessed that the man sweeping the floor would have to come out to get the dustpan, so they crept to the door. As soon as the "enemy soldier" stepped out, they sprang out, put him in a choke hold, and took him prisoner.

They took the "enemy soldier" to the forest, tied him up, made him put on a set of light diving equipment, crossed the road, reentered the sea behind the same rocks they came from, climbed back into the underwater transport device, set their compass, and made their way back to a waiting fishing boat.

By the time the "enemy soldiers" discovered that some frogmen had entered the camp and began combing the island to find them, these two amphibious reconnaissance soldiers had already returned victoriously to their base.

The commander said that although these exercises look simple they are, in fact, quite difficult. They are a big test of the men's swimming and diving skills. The amphibious reconnaissance soldiers must be able in their first year to swim 10,000 meters, and anyone who fails to achieve this cannot go on to any other underwater training. They are often taken out to sea in the morning and not picked up until dusk, and in the summer they all bake in the sun until they look like black men from Africa. When they first learn to dive, they can stay under water for only 10 minutes or so, and even that feels like a year. Later, they are able to dive for two hours or more. The men must go through a process of physical and psychological adjustment before they can complete training for highly difficult tasks.

#### Parachuting Into the Sea Is for Speed

Modern warfare is a race against time. The stronger your rapid response capability, the greater are your chances for victory, and the more likely a quick strike is to succeed. The East Sea Fleet's Amphibious Reconnaissance Zhongdui is responsible for all aspects of operations. It is a highly flexible marine unit. In order to deal with suddenly occurring incidents and to improve rapid response capability, they have made parachute jumping at sea a basic part of training.

The commander brought out a videotape and invited me to see how they trained for parachute jumping. Later, I talked with Lieutenant Junior Grade Xu Jianmin [6079 1696 3046], leader of the team. He was the first officer who had learned to parachute. He talked about the joys and hardships of training.

It is easy to understand the theory of parachuting, just as it is easy to understand the theory of swimming, but it is not easy to actually do it well. At first they jumped from towers on land to practice their parachute landing falls, then they jumped into a swimming pool. Once they had mastered the basic skills, they jumped from aircraft.

The first time they parachuted, they often looked quite silly. Some of them fell into muddy swamps, while others fell across utility poles and ended up suspended in midair. They summed up their experiences, got the knack of parachuting, and the second time they jumped they performed up to standard and were praised by the commander.

The lieutenant junior grade said that it is fairly easy to parachute over land, but it is much more difficult to parachute into the sea. Over land you parachute with the wind, but over water you parachute into it. The weather was good on that day. They flew to 2,000 meters, circled once, opened the door, and the men jumped out one by one. At 800 meters above the sea each man had to pull a life raft out of his chest pack and twist open a canister of compressed air to inflate it. The life vest each man was wearing also had to be inflated. Finally, the rubber life raft had to be gripped between the parachutist's legs, who would then turn his body into the wind. At 500 meters, he had to release his crotch and chest lines and pull on the lines with his hands to maintain stability. This is the most dangerous moment in the jump. There are dozens of lines in front and back. If they are not properly manipulated and the jumper becomes entangled in them, his life could be endangered.

The lieutenant junior grade and his men were extremely proficient at this procedure. The first time they parachuted over the sea, every one of them landed accurately somewhere near a waiting ship, quickly climbed into their life rafts, and gathered at the ship.

The lieutenant junior grade said that the men were very excited about training. Everyone said, "You can go a lifetime without fighting in a war, but a soldier cannot go a single day without training. Only by being prepared at all times can one make a contribution to the fatherland." A soldier named Zhang came down with two boils the size of sourdough biscuits on his leg during training. The parachute lines rubbed across them and made it very painful. Every night when he took off his pants his legs were all bloody. The physician gave him medical leave, but he said, "We can't hold up training for just one person. You have to use a lot of aircraft every time you do a jump, and that costs a lot of money. It will be hard to make it up if I miss this chance. I've got to take part in the training." He tenaciously went through with two successful jumps over sea and land.

Chanting "A soldier fears no pain," many of the men of the amphibious zhongdui matured. Small wonder this force has been named an advanced unit in all of the 13 years since its establishment.

#### **Survival Training on Desert Islands Is To Learn How To Sneak Behind Enemy Lines**

Whether you transport your men along the bottom of the sea or parachute them through the air, the object is to carry out a quick and stealthy attack. Sometimes it is necessary to hide right under the enemy's nose on a deserted island; but, without food or water, how do you survive? The amphibious reconnaissance force must carry out special training exercises twice a year to learn how to deal with this problem. They have to live like primitive savages in order to develop their ability to survive under conditions of extreme hardship.

When the commander started talking about this aspect of training, he could not be stopped. They often organize

a small fendui to go silently to a deserted island. The men are allowed to carry only one kilo of rice, two ounces of salt, and one box of matches, and they have to survive for seven days on the island. Furthermore, these few things they take with them are to be used only in an emergency. They use branches to make shelters and sleep in the woods, in caves, and amidst graves. When hiding behind enemy lines, one cannot reveal one's target, so the commander purposely goes out on a ship to watch and find out where they are. If he finds them their score will be lowered, so the men generally sleep in the day and move about at night.

When they hunt for food on the beach, they mostly go after jumping fish. These fish are very skittish; at the slightest movement they dive back into their mudholes. You have to wait patiently behind the rocks until the tide comes in and the jumping fish swim into shallow puddles farther up on the beach. Only then can you catch them. They are only about as thick as your thumb and less than two inches long. They taste good raw. The men sometimes go into caves to catch crabs and to fish. Sometimes they go the entire night without catching anything.

Once, a python about the thickness of a flashlight crawled out where the commander and his men were hiding and reared up, ready to strike. Some of the men panicked and did not how to overcome the snake. The commander said this was the best kind of meat. He took a bamboo cane, softly poked the python in a critical spot, and it went limp. They hit it several times with a rifle butt to kill it, and the commander taught his men how to eat it. He hung it from a tree branch near a spring, made an incision with his diving knife about seven inches from the head, slit the skin open all the way down to the tail, and removed the "dragon's clothing" to reveal a clean, white carcass. He then gutted the snake, cleaned it in the spring water, and cut it into thin slices. It was a tasty treat whether eaten raw or placed in a jar, lightly salted, and warmed up over a smokeless burner!

The commander went on to talk about a story from an American movie in which a pilot found himself without food or water in a desert. His lips cracked and his throat was on fire. He could not even speak. He found a snake in a cave and killed it, used a knife to cut the snake open, drank its blood, and then ate the meat raw. It looked horrible, but the pilot made it back alive. It was evident that he had been well trained in survival techniques.

The commander said that they have to study and conduct experiments to learn which plants are edible and which are poisonous. There is a lot to learn. During the course of survival training, many people have tasted hundreds of plants and eaten rats and birds raw. Every time they come back from training they have lost five kilos or more.

Hunger is one test; sleeping is another. For these young people, who have grown up "sitting in their mother's laps and weaned on syrup," training in this area is even more necessary. Exposed to the rain, their tent blown away by



the wind, everyone gets sopping wet. Feet soak in water until they turn white and the skin falls off layer by layer. There are so many mosquitoes in the summer that if you take a swipe you are sure to come up with a fistful. When you lie down at night it is as if you were in a bombing raid. Now they buzz in your ear, now they crawl up your nostrils. You slap and hit at them all night. Forget about getting any shuteye. Sometimes the men have to engage in competitions at night and each side has to sneak into the other's camp to steal information. It is a contest of tactics and intelligence. Only after all these skills have been mastered can one fight for survival on a deserted island. Only then can you hide right under the enemy's nose and wait for the opportunity to launch an attack.

#### **Training for Courage in Solitary Situations Is Done in Order To Toughen Men for Battle**

The commander said that all countries put their special forces through very rigorous training. Some countries are quite brutal. Taiwan's Kuomintang attempted to make its frogmen into so-called "invincible heroes" in the 1960's by subjecting them to two mandatory tests at graduation time. One was called "hell week" and the other was called "the road to heaven."

In "hell week," the men were not allowed to close their eyes for seven days and nights, and they had to remain alert. They could dance, sing, drink alcohol, or do anything else; they just could not close their eyes. Anyone who nodded off would have his skin lacerated by a whip. By the last few days, each man's face grew pale and his eyes puffed up. They staggered about and it was hard to tell if they were men or ghosts.

"The road to heaven" was even more cruel. The men had to strip naked except for a pair of shorts, lie down on a 300-meter pathway paved with broken glass and cinders, and roll down the length of it without stopping. By the time the men finished, they hardly had any skin left, but they were not allowed to cry out in pain.

Of course, our amphibious reconnaissance force does not subject its men to such cruel training, but it is a special force fendui and it carries out special tasks, so it has to go through special and rigorous training. For example, the men often have to toughen their courage in solitary conditions. The commander spoke of his own experience. He is the third leader of this force.

After he had been in the force for four months, the old leader handed down an order for him to cross over two mountains and retrieve a piece of information from beneath a flagstone in front of a new grave. Although he knew boxing and had always been brave since childhood, this was the first time he ever had to go alone through a mountain forest in the middle of a rainy night to retrieve information. He could not help but feel frightened, but orders were orders. As a soldier, he had no choice but to set out despite the rain.

After crossing over two mountains, he did indeed find his way to that grave, above which he spotted two crouched white figures making some sort of rustling noise. He thought of all the ghost stories he had heard as a young boy about headless ghouls with blood running from all seven orifices and tongues hanging down to the ground. The thought raised goose bumps all over his body, but how was he to get the information without going near those white things? He plucked up his courage, edged slowly toward the grave, and sprang toward it all of a sudden. He had to laugh. The white things were nothing but flower wreaths. He picked up the information and headed back.

On the way back, he noticed that a shadow kept following him. Whenever he walked, the shadow walked. Whenever he crouched down, the shadow would do the same. He started to feel frightened. Could this actually be a ghost? After turning a corner he hid in some tall grass, waited for the shadow to approach, and sprang toward it with knife in hand. My God! It was a wolf, and he scared it away. After that test, he was more courageous than ever. It does not bother him at all now to sleep in a cemetery or lie down next to a coffin.

That night made a deep impression on him. After he became leader of the force, he made use of this method of strengthening people's courage in conditions of solitude. He specially chooses nights when it is raining, snowing, or blowing hard to carry out this training. The commander said, "Only by strengthening your courage in conditions of solitude can you operate independently and sneak behind enemy lines to launch an attack or take prisoners."

I only spent a week there, but the rigorous yet colorful atmosphere of the training activities going on there left me scores of unforgettable memories.

### Taiwan's Drive Toward Foreign Investment Explained

90CE0485A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 32, 6 Aug 90  
p 20]

[Article by Hsu Hsin-p'eng (6079 1800 7720): "Cursory Analysis of Taiwan's Direct Foreign Investment in Recent Years"]

#### [Text] Steady Increase in Foreign Investment

As the island's domestic economic climate has dramatically changed in recent years, Taiwan's direct foreign investment has increased tremendously. Analysis of Taiwan "central bank" statistical data shows that up until 1987, Taiwan's direct foreign investment was just a trickle, amounting to \$80 million in 1985, and only \$66 million in 1986. After 1987, as a result of the pressure created by excessive foreign exchange holdings, the Taiwan authorities had no choice but to change their former conservative and gradual policy for foreign investment. They changed their foreign exchange control policy from "limitations on outflow but no limitations on inflow" to "limitations on inflow but no limitations on outflow, thereby encouraging firms to make direct investments abroad. In addition, because of the worsening of the investment climate on the island during the past several years, advantages to enterprises from investment on the island have disappeared. Most labor-intensive industries and high pollution capital-intensive industries have no choice but to move overseas.

Under these circumstances, Taiwan direct foreign investment exhibited steady expansion in recent years. In 1987, Taiwan businessman direct foreign investment was \$700 million in a 966.67 percent increase over the previous year. In 1988, it was \$4.1 billion in a 485.23 percent increase over the previous year; and in 1989 it reached \$6.95 billion. People in Taiwan banking circles estimate that the Taiwan investment outflow for 1990 will reach between \$12 billion and \$15 billion, both the amount and the scale of direct foreign investment greatly exceeding the 1989 level.

#### Regional Distribution of Foreign Investment

Analysis of statistical data from the Taiwan "Ministry of Economics Investment Examination Committee" shows that at the present time, the United States is the leading area for Taiwan businessman direct foreign investment, followed by the countries of Southeast Asia. The mainland is also an area in which Taiwan businessmen see good prospects for overseas investment.

For various reasons, much of Taiwan businessmen's investment abroad is made through "underground channels"; consequently, the amounts and areas of direct foreign investment that the Taiwan authorities have authorized is a long way from the actual situation. Direct foreign investment authorized by the Taiwan "investment examination committee" in 1989 amounted to \$930 million, including a \$500 million investment in the

United States, or more than half the total. However, Taiwan "central bank" statistics on the amount of direct foreign investment show \$6.95 billion, or nearly eight times the amount that the Taiwan authorities authorized.

Analysis of statistical data shows the main area in which Taiwan businessmen invested in 1989 was Thailand where they invested \$870 million. Second was Malaysia where they invested \$785 million. The United States was only third; and fourth was the mainland where they invested \$430 million. Others in order of precedence were the Philippines, and Indonesia.

It is noteworthy that in order to respond to the formation of a unified European market in 1992, Taiwan businessmen are actively grabbing shares of the European market, investment in Europe gradually increasing. In 1988, investment in Europe already amounted to \$5 million. Although this is not a large sum, in comparison with the past when the Taiwan authorities kept no statistics on investment in Europe, its importance is increasingly apparent.

#### Spread of Foreign Industrial Investment

Historically Taiwan traders' foreign investment has been mostly in manufacturing industries, but this changed in 1988. In 1987, manufacturing industries accounted for as much as 66 percent of all foreign industrial investment. In 1988, however, an unusual situation occurred in which service industries leaped to first place in direct foreign industrial investment with 53.1 percent of direct industrial investment. In 1989, investment changed back to manufacturing industries primarily, amounting to approximately 70 percent of all foreign industrial investment for the year.

A survey of specific industries in which Taiwan businessmen have made foreign investments shows that among manufacturing industries, investment in the electronic appliances industry stands first, and the chemical products industry second. The spread of industries and the range of products produced in which Taiwan businessmen have invested abroad differs from one area to another. For example, the goal of Taiwan businessmen's investment in the United States is to make use of America's high technology personnel to produce high technology products; thus, the technological level of the products produced is relatively high. In Southeast Asia, however, investment is mostly in traditionally labor-intensive industries for the most part. There, they mostly use local cheap and abundant labor and land. Up to the present time, Taiwan traders' investments in Thailand, Malaysia, the Philippines, and Indonesia has been mostly in plastics, papermaking, electronic appliances, petrochemical, toy, wood processing, leather, and shrimp raising industries.

Naturally, some large Taiwan financial groups have recently begun moving some capital and technology-intensive industries abroad in order to open up the

overseas market. In addition, some high pollution capital-intensive industries have had no choice but to "take off for distant parts" since they were unable to continue to survive in Taiwan because of public consciousness of environmental protection.

#### **Taiwan Businessman Investment in the Mainland**

Currently, Taiwan businessman investment in the mainland remains concentrated in coastal areas, and the scope of investment is primarily in medium and small projects. The forms of investment and the industries invested in have widened, however, and investment periods have lengthened.

In mid-March 1990, after the Taiwan authorities were forced to liberalize the travel of businessmen from firms to the mainland to conduct business surveys, the Taiwan businessman "mainland craze" has been steadily heating up. At the same time, however, it has come under strict scrutiny in many regards. On the one hand, because of the policies of the Taiwan authorities towards the mainland, they have adopted an attitude of "cold processing" and "slow processing" with regard to the Taiwan businessmen's "mainland craze, obstructing Taiwan businessmen's direct investment in the mainland. They have adopted various measures to disperse Taiwan businessmen's direct foreign investment to Southeast Asia, the USSR, and eastern Europe. On the other hand, whether the mainland will be adopt to adopt effective measures for using Taiwan capital effectively is also an important question.

#### **Taiwan Businessman Overseas Investment Just Beginning**

The steady expansion of Taiwan businessmen's investment abroad of the past three years is attributable primarily to the following several factors: First, improvement of the investment climate on the island is still awaited. Second, in promoting economic "liberalization and internationalization, the Taiwan authorities have inevitably adopted policies to encourage investment abroad, and have given businesses support in every way. Third, it takes a very long time for excess foreign exchange holdings to be used up. Fourth, progress is slow in upgrading the Taiwan industrial structure, and quite a few industries remain to be eliminated. Fifth, quite a few financial groups are preparing to move overseas for various reasons including the opening up of markets, and some have already begun.

A recent survey that the Taiwan "Ministry of Economics Investment Examination Committee conducted shows that only 18.6 percent of Taiwan foreign marketing firms have invested abroad, that 21.4 percent have plans to invest abroad, and that 36 percent have no current plans, but intend to invest abroad in the future. The survey shows that nearly 60 percent of Taiwan businessmen will invest abroad in the future, and that "firms interested in going to the mainland are on the increase." These data show that the tide of Taiwan businessman investment abroad is just beginning. The Taiwan authorities have even set a development goal for foreign investment at 10 percent of gross national product. If this goal can be attained, Taiwan businessmen's foreign investment will amount to \$16 billion annually.

### Li Huan Discusses KMT's Intraparty Power Struggle

90CM0413A Hong Kong CHAO LIU [TIDE]  
in Chinese No 42, 15 Aug 90 pp 27-28

[Interview with Li Huan (2621 3562) by correspondent Wang Meiyu (3769 5019 3768): "Li Huan Says The KMT Is in Danger of Losing Its Position of Ruling Party"]

[Excerpts] [passage omitted] This is a recently published talk by Li Huan [2621 3562]. He once held the positions of director of the Department of Organizational Affairs of the KMT [Kuomintang] Central Committee, secretary general of the Department of Party Affairs of the KMT Central Committee, and president of the Executive Yuan. [passage omitted]

[Wang Meiyu (3769 5019 3768)] The problem of provincial origin has again cropped up on Taipei's political stage; what are your views on this question of provincial origin?

[Li Huan] The problem of provincial origin should not again be brought up, but it seems that some politicians take the question of provincial origin as a pretext for political accusations and political struggle, even going so far as to convert it into an item of personal political capital, an attitude that really shows a considerable measure of irresponsibility.

During the 40 years that have passed since the government moved to Taiwan, the problem of provincial origin of persons has already faded, and there is no reason to again make it a cause of conflict, or even to create mutual confrontations among the people.

[Wang Meiyu] How, in your opinion, can this knot of a problem, the provincial origin problem, be undone?

[Li Huan] If the authorities of the ruling party would only act according to the principles of fairness and unselfishness, not discriminate because of provincial origin, employ people strictly according to their qualifications, this knot of a problem, as you call it, and the hostile confrontation it engenders will quite naturally disintegrate into nothingness.

[Wang Meiyu] In the 1950's, the KMT was advocating "Taiwanization." You suggested this idea to Chiang Ching-kuo and assumed responsibility for its execution. In view of the gradual recurrence of the problem of discrimination for reasons of provincial origin in Taiwanese society, would you care to make public the process of "Taiwanization" in those days?

[Li Huan] I am now in the process of collecting materials, and there are many things that will be completed only after they are duly put in proper order. When an opportunity presents itself in future, publication can be considered.

[Wang Meiyu] But can you not first talk about the policy of "Taiwanization" in those days, that is, about the idea

and origin of what people outside are already referring to as the "Ts'ui T'ai-ching [1508 0669 5464]" policy (apt to be flattering to Taiwanese youths)?

[Li Huan] Actually, the so-called "Ts'ui T'ai-ching" policy is a term that was created by the news media. The KMT has never internally advocated this Taiwanization policy.

Furthermore, the idea that I at that time suggested to Chiang Ching-kuo was also not called a policy of "Taiwanization." My true intention was to nurture replacement talent from among the middle-school students and have young talent join the ranks of government workers.

[Wang Meiyu] Recently, differences of opinions have frequently occurred within the KMT, and there have even been "bombardments of the headquarters" [a Mao Zedong quote] of the KMT Central Committee, but without any corresponding reaction from the party. Is the KMT, in your opinion, already facing the danger of a split?

[Li Huan] The KMT is presently facing a very dangerous situation. If they still do not reform, they may, I am afraid, even lose the chance to maintain their position as ruling party.

[Wang Meiyu] Do you demand of the new lineup of KMT members that they carry out reform or that they "bombard the headquarters" of the KMT Central Committee; how do you see the situation?

[Li Huan] Basically, I believe they too are young men who advocate that the party become more democratic and eager to reform. Their demand for immediate reform is very understandable, but it is debatable whether it is necessary for them to press the demand in so impatient a manner, which even leads to having their demands misinterpreted by outsiders. But viewed from a different angle, it is perhaps because their demand for reform has so far evoked no reaction and no reform has resulted that they are so impatient and find the situation so unbearable.

[Wang Meiyu] Since there is within the KMT so much divided opinion on the matter of reform, and the party is faced with the danger of a split, is it possible, in your opinion, that the fate of the KMT will be factionalism as in the Japanese Liberal Democratic Party?

[Li Huan] Among the factions of the Liberal Democratic Party, mutual coordination and linkages are possible, as well as selection of a cabinet by mutual effort, but within the KMT the situation is regularly such that mutual coordination is impossible and that, in case of disagreement, the other party is severely attacked. There was, for instance, recently the terrible affair in the Kuanchung district where someone was beaten up by comrades within the party. If things go on like this, there will be a split in the party, not merely factionalism.

[Wang Meiyu] Do you believe that the organizers of the Kuanchung Democratic Fund were correctly motivated?

[Li Huan] What the Kuanchung Foundation intended to do was help the party institute special research on questions of common policy. This is an ordinary thing in a pluralistic society; why should it not be done merely because it had never been previously done by the party? If some people now come forward to do it, and if those who come together for this purpose are party comrades or pro-KMT personalities and academicians bringing excellent resources to bear, why should one want to attack them?

[Wang Meiyu] You have repeatedly emphasized the need for democratization within the party. In February this year, just before the Central Committee meeting, it was suggested to elect the ruling party's candidate for president by balloting, a suggestion which attracted general attention, but you and Judicial Yuan President Lin Yang-kang made statements on the question whether in future the party chairman should be elected in a competitive election, to the effect that there must not be an election contest for party chairman. Is it still unacceptable for you to have a competitive election to elect the chairman of the party? People find it difficult to reconcile this prohibition on your part with your quest for more democratization in the party. Can you clarify?

[Li Huan] In connection with my statement that there must not be a competitive election to elect the party chairman, I have mainly the following two personal political propositions: democratization within the party and achievement of national unity. To implement and promote these two political propositions, I must not be seeking a position for myself, including selecting by my ballot the next party chairman. Otherwise it would be seen by everybody as an attempt on my part to use a political proposition as my means and tool to gain a position for myself.

I believe that, in the process of instituting more democracy within the party, the February proposal for balloting, although unsuccessful, has had a very deep effect. The future election of standing committee members and of the party chairman by ballot is a trend that can no longer be stopped. The past practice of voting by rising must be abolished. There has to be a thorough reform by instituting democratic procedures.

Again, for instance, whether discussions on the matter of achieving national unity between the two sides of the Taiwan Strait should be on a government-to-government or a party-to-party basis, all these problems deserve study, all entail important decisions of the ruling party. They should be spread out in public and openly discussed in the highest decisionmaking places; they must not be hidden and hushed up, as is done now.

[Wang Meiyu] As the KMT is at this juncture facing so many controversies, what is your personal view on reforms in the KMT?

[Li Huan] If the KMT wants to reform, there is only one way, that is to follow the will of the people. I have once already pointed out to the authorities the two directions

to follow: 1) The heads of party committees in counties and municipalities must be elected and must no longer be appointed by the party's Central Committee. This alone will ensure that their positions will be founded on the will of the people. 2) There must be a large-scale change of personnel in the composition of the Standing Committee with an infusion of delegates whose positions are based on the will of the people. This alone will fully assert the function and role of its policy decisions.

At present, the Standing Committee is composed of the old veterans from the times of the KMT-run state, heads of the state administration, and party workers. I will discreetly not say anymore about the party old-timers. The heads of the state administration will seldom speak out because of considerations for their positions in the administration. Party workers will be even less inclined to say anything against the party. The Standing Committee is therefore quite unable to assert the functions and role of a decisionmaking body; it is rather an assembly without a voice of its own, which is extremely deplorable.

As to the future composition of the Standing Committee, perhaps it may set up a separate consultative committee of old veterans from the times of the KMT-run state. That committee could then submit proposals for reforms to serve as a reference for policy decisions. The heads of the state administration could become participants in a central government policy committee, which should be responsible for promoting policies and for coordinating their execution. The Standing Committee would then become a people's representative, that is, representative of the will of the people, indeed become the highest organ for the formation and examination of policy decisions, and only then could we prevent the KMT from becoming completely divorced from the will of the people.

[Wang Meiyu] During the political squabbles of February, you were counted as a member of the non-mainstream wing; what about any activities of the non-mainstream wing?

[Li Huan] This division of mainstream and non-mainstream wings made by outsiders is highly inappropriate. Introducing this terminology obstructs steps toward renovation of the party. On being separately assigned to either mainstream or non-mainstream wings, many people will not dare to speak out, and if even mere disagreement is considered non-mainstream conduct, with this kind of disturbing differentiation, how could people still discuss anything like renovation?

Moreover, there are really no "non-mainstream" persons. If one were to stubbornly insist that this kind of differentiation has to be made, one could only say that there is one faction that emphatically demands reform and another faction that wants to go much slower on reform, or we should speak here outright and more appropriately of a faction that is in power and a faction that is out of power, why talk here of mainstream and "non-mainstream" wings?

22161

166

NTIS

ATTN: PROCESS 105

5285 PORT ROYAL RD

SPRINGFIELD, VA

22161

This is a U.S. Government publication. Its contents in no way represent the policies, views, or attitudes of the U.S. Government. Users of this publication may cite FBIS or JPRS provided they do so in a manner clearly identifying them as the secondary source.

Foreign Broadcast Information Service (FBIS) and Joint Publications Research Service (JPRS) publications contain political, military, economic, environmental, and sociological news, commentary, and other information, as well as scientific and technical data and reports. All information has been obtained from foreign radio and television broadcasts, news agency transmissions, newspapers, books, and periodicals. Items generally are processed from the first or best available sources. It should not be inferred that they have been disseminated only in the medium, in the language, or to the area indicated. Items from foreign language sources are translated; those from English-language sources are transcribed. Except for excluding certain diacritics, FBIS renders personal names and place-names in accordance with the romanization systems approved for U.S. Government publications by the U.S. Board of Geographic Names.

Headlines, editorial reports, and material enclosed in brackets [ ] are supplied by FBIS/JPRS. Processing indicators such as [Text] or [Excerpts] in the first line of each item indicate how the information was processed from the original. Unfamiliar names rendered phonetically are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear from the original source but have been supplied as appropriate to the context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by the source. Passages in boldface or italics are as published.

#### SUBSCRIPTION/PROCUREMENT INFORMATION

The FBIS DAILY REPORT contains current news and information and is published Monday through Friday in eight volumes: China, East Europe, Soviet Union, East Asia, Near East & South Asia, Sub-Saharan Africa, Latin America, and West Europe. Supplements to the DAILY REPORTs may also be available periodically and will be distributed to regular DAILY REPORT subscribers. JPRS publications, which include approximately 50 regional, worldwide, and topical reports, generally contain less time-sensitive information and are published periodically.

Current DAILY REPORTs and JPRS publications are listed in *Government Reports Announcements* issued semimonthly by the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 and the *Monthly Catalog of U.S. Government Publications* issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

The public may subscribe to either hardcover or microfiche versions of the DAILY REPORTs and JPRS publications through NTIS at the above address or by calling (703) 487-4630. Subscription rates will be

provided by NTIS upon request. Subscriptions are available outside the United States from NTIS or appointed foreign dealers. New subscribers should expect a 30-day delay in receipt of the first issue.

U.S. Government offices may obtain subscriptions to the DAILY REPORTs or JPRS publications (hardcover or microfiche) at no charge through their sponsoring organizations. For additional information or assistance, call FBIS, (202) 338-6735, or write to P.O. Box 2604, Washington, D.C. 20013. Department of Defense consumers are required to submit requests through appropriate command validation channels to DIA, RTS-2C, Washington, D.C. 20301. (Telephone: (202) 373-3771, Autovon: 243-3771.)

Back issues or single copies of the DAILY REPORTs and JPRS publications are not available. Both the DAILY REPORTs and the JPRS publications are on file for public reference at the Library of Congress and at many Federal Depository Libraries. Reference copies may also be seen at many public and university libraries throughout the United States.